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As filed with the Securities and Exchange Commission on April 13, 2011

Registration No. 333-172011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2
to
FORM S-11

**FOR REGISTRATION UNDER THE
SECURITIES ACT OF 1933 OF SECURITIES
OF CERTAIN REAL ESTATE COMPANIES**

RLJ Lodging Trust

(Exact Name of Registrant as Specified in governing instruments)

**3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814
(301) 280-7777**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Thomas J. Baltimore, Jr.
President and Chief Executive Officer
3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814
(301) 280-7777**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ☒	Smaller reporting company o

(Do not check if a
smaller reporting company)

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated April 13, 2011

PROSPECTUS

Shares

RLJ Lodging Trust

Common Shares

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. Upon completion of this offering and our formation transactions, we will own 140 hotels in 19 states and the District of Columbia comprising over 20,400 rooms.

This is our initial public offering. We are selling common shares of beneficial interest, or common shares, in this offering.

We expect the public offering price to be between $ and $ per share. Currently, no public market exists for our common shares. After pricing of this offering, we expect that our common shares will trade on the New York Stock Exchange, or NYSE, under the symbol "RLJ."

We intend to elect and to qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with the taxable year ending December 31, 2011. To assist us in qualifying as a REIT, shareholders generally are restricted from owning more than 9.8% of our outstanding common shares or our preferred shares of beneficial interest, in each case by value or number of shares, whichever is more restrictive. See "Description of Shares—Restrictions on Ownership and Transfer."

Investing in our common shares involves risks. See "Risk Factors" beginning on page 16 of this prospectus for a description of various risks you should consider in evaluating an investment in our common shares.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

We have granted the underwriters an option to purchase up to additional common shares from us at the public offering price, less the underwriting discount, within 30 days after the date of this prospectus solely to cover overallotments, if any.

Neither the Securities and Exchange Commission nor any state or other 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.

The common shares sold in this offering will be ready for delivery on or about , 2011.

BofA Merrill Lynch **Barclays Capital** **Wells Fargo Securities**

The date of this prospectus is , 2011.

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is current as of the date such information is presented. Our business, financial condition, liquidity, earnings before interest, taxes, depreciation and amortization, or EBITDA, funds from operations, or FFO, results of operations and prospects may have changed since those dates.

This prospectus contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Marriott International, Inc., Hilton Worldwide, InterContinental Hotels Group, Hyatt Hotels Corporation and Choice Hotels International, Inc., or their respective parents, subsidiaries or affiliates. None of the owners of these trademarks, their respective parents, subsidiaries or affiliates or any of their respective officers, directors, members, managers, shareholders, owners, agents or employees, which we collectively refer to as the Trademark Owner Parties, is an issuer or underwriter of the common shares being offered hereby, plays (or will play) any role in the offer or sale of our common shares, has endorsed the offer of common shares hereby, or has any responsibility for the creation or contents of this prospectus. In addition, none of the Trademark Owner Parties has or will have any liability or responsibility whatsoever arising out of or related to the offer or sale of the common shares being offered hereby, including any liability or responsibility for any financial statements, projections or other financial information or other information contained in this prospectus or otherwise disseminated in connection with the offer or sale of the common shares offered hereby. You must understand that, if you purchase our common shares, your sole recourse for any alleged or actual impropriety relating to the offer and sale of such common shares and/or our operation of our business will be against us (and/or, as may be applicable, the seller

of such common shares) and in no event may you seek to impose liability arising from or related to such activity, directly or indirectly, upon any of the Trademark Owner Parties.

We use market data and industry forecasts and projections throughout this prospectus, including data from publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry and there can be no assurance that any of the forecasts or projections will be achieved. We believe that the surveys and market research others have performed are reliable, but we have not independently investigated or verified this information. In addition, the projections attributed to Colliers PKF Hospitality Research that have been included in this prospectus have not been expertized. As a result, Colliers PKF Hospitality Research does not and will not have any liability or responsibility whatsoever for any market data and industry forecasts and projections that are contained in this prospectus or otherwise disseminated in connection with the offer or sale of our common shares. If you purchase our common shares, your sole recourse for any alleged or actual inaccuracies in the forecasts and projections used in this prospectus will be against us.

Except where the context suggests otherwise, we define certain terms in this prospectus as follows:

- "our company," "we," "us" and "our" refer to RLJ Lodging Trust, a Maryland real estate investment trust, together with its consolidated subsidiaries, including RLJ Lodging Trust, L.P., a Delaware limited partnership, which we refer to as "our operating partnership";

- "our predecessor" collectively refers to RLJ Development, LLC, or RLJ Development, and the two remaining lodging-focused private equity funds that are sponsored and managed by RLJ Development, RLJ Lodging Fund II, L.P. (and its parallel fund), or collectively, Fund II, and RLJ Real Estate Fund III, L.P. (and its parallel fund), or collectively, Fund III, all of which are entities under the common control of Robert L. Johnson, our Executive Chairman;

- "our initial hotels" refers to the 140 hotels owned by our predecessor as of the date of this prospectus, which number excludes the New York LaGuardia Airport Marriott, which is expected to be transferred to a third party no later than September 14, 2011;

- a "compact full-service hotel" typically refers to any hotel with (1) less than 300 guestrooms and less than 12,000 square feet of meeting space or (2) more than 300 guestrooms where, unlike traditional full-service hotels, the operations focus primarily on the rental of guestrooms such that a significant majority of its total revenue is generated from room rentals rather than other sources, such as food and beverage;

- a "focused-service hotel" typically refers to any hotel where the operations focus primarily on the rental of guestrooms and that offers services and amenities to a lesser extent than a typical full-service or compact full-service hotel. For example, a focused-service hotel may have a restaurant, but, unlike a restaurant in a typical full-service or compact full-service hotel, it may not offer three meals per day and may not offer room service. In addition, a focused-service hotel differs from a compact full-service hotel in that it typically has less than 2,000 square feet of meeting space, if any at all; and

- "TRSs" refers to our taxable REIT subsidiaries that will be wholly-owned, directly or indirectly, by our operating partnership and any disregarded subsidiaries of our TRSs.

We refer to the "RevPAR penetration index" of our initial hotels to measure each hotel's revenue per available room, or RevPAR, in relation to the average RevPAR of that hotel's competitive set. Each hotel's competitive set consists of a small group of hotels in the relevant market that we and the third-party hotel management company that manages the hotel believe are comparable for purposes of benchmarking the performance of such hotel. The portfolio-wide RevPAR penetration index presented in this prospectus is based on 138 of our initial hotels weighted by room count and excludes two of our

initial hotels that were not open for the entire year ended December 31, 2010. Furthermore, except as otherwise specified herein, RevPAR, RevPAR penetration index, average daily rate, or ADR, and occupancy rates are presented for our initial hotels, which, as described above, refers to the 140 hotels owned by our predecessor as of the date of this prospectus, excluding the New York LaGuardia Airport Marriott (which is expected to be transferred to a third party no later than September 14, 2011).

Historical financial data presented in this prospectus includes the New York LaGuardia Airport Marriott. However, as this hotel is expected to be transferred to a third party no later than September 14, 2011, the pro forma financial data included herein excludes the New York LaGuardia Airport Marriott.

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before making a decision to invest in our common shares. You should read carefully the more detailed information set forth under the heading "Risk Factors" and the other information included in this prospectus, including our historical and pro forma financial statements and related notes. Unless indicated otherwise, the information in this prospectus assumes (1) the common shares to be sold in this offering are sold at $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, (2) the initial value of the units of limited partnership interest in our operating partnership, or OP units, to be issued in our formation transactions is equal to the midpoint of the price range for our common shares set forth on the cover page of this prospectus, (3) the underwriters do not exercise their overallotment option to purchase up to an additional common shares and (4) the completion of our formation transactions described in this prospectus.

Our Company

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. Upon completion of this offering and our formation transactions, we will own 140 hotels in 19 states and the District of Columbia comprising over 20,400 rooms. We will be one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our initial hotels are concentrated in urban and dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry. We believe focused-service and compact full-service hotels with these characteristics generate high levels of RevPAR, strong operating margins and attractive returns.

Our strategy is to invest primarily in premium-branded, focused-service and compact full-service hotels. Focused-service and compact full-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. We believe premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows. We also may invest in compact full-service hotels, which have operating characteristics that resemble those of focused-service hotels. International lodging brands that are consistent with our premium-branded investment strategy include, among others, Courtyard by Marriott™, Residence Inn by Marriott™, Hilton Garden Inn™, Homewood Suites by Hilton™, Hyatt Place™ and Embassy Suites™.

We believe that the current market environment presents attractive opportunities for us to acquire additional hotels with significant upside potential that are compatible with our investment strategy. We also believe that current lodging market fundamentals provide significant opportunities for RevPAR and EBITDA growth at our initial hotels. We believe that our senior management team's experience, extensive industry relationships and asset management expertise, coupled with our expected access to capital, will enable us to compete effectively for acquisition opportunities and help us generate strong internal growth.

We were formed to succeed to the hotel investment and ownership platform of RLJ Development and its two remaining lodging-focused private equity funds, Fund II and Fund III, which had total equity commitments of approximately $743.0 million and $1.2 billion, respectively. As part of our formation transactions, all of the existing investors in Fund II and Fund III will receive common shares and will continue to be equity owners of our company. We believe that the ongoing equity ownership in us by investors in Fund II and Fund III demonstrates their continued support of our senior management team, our investment and growth strategies and our operating model. We have in place an

extensive investment and ownership platform, which is comprised of seasoned industry professionals and an efficient operating infrastructure that includes well-established systems and procedures.

Our senior management team, led by Robert L. Johnson, Executive Chairman of our board of trustees, and Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees, has significant experience acquiring, financing, renovating, repositioning, redeveloping, asset managing and selling hotels. Prior to our formation, Messrs. Johnson and Baltimore founded RLJ Development, which sponsored and managed three lodging-focused private equity funds, including Fund II and Fund III. RLJ Development and the three funds collectively completed approximately $5.7 billion in hotel acquisitions and dispositions over the past decade. Prior to forming RLJ Development, Mr. Johnson served on the board of directors of Hilton Hotels Corporation (now known as Hilton Worldwide) from 1994 to 2006, and Mr. Baltimore held senior management positions at Hilton Hotels Corporation, Marriott Corporation and Host Marriott Services Corporation.

Our Initial Hotels

Upon completion of this offering and our formation transactions, we will own a high-quality, geographically diverse portfolio of 140 hotels located in 19 states and the District of Columbia comprising over 20,400 rooms. No metropolitan statistical area, or MSA, and no individual hotel accounted for more than 14.8% or 8.7%, respectively, of our total pro forma revenue for the year ended December 31, 2010.

Our initial hotels operate under strong, premium brands, with approximately 93% of our initial hotels operating under existing relationships with either Marriott International, Inc. or its affiliates, or Marriott, subsidiaries of Hilton Worldwide, or Hilton, or Hyatt Hotels Corporation or its affiliates, or Hyatt. The following table sets forth the brand affiliations of our initial hotels:

Brand Affiliations	Number of Hotels	Percentage of Total Hotels	Number of Rooms	Percentage of Total Rooms
Marriott				
Courtyard by Marriott	32	22.9%	4,223	20.6%
Fairfield Inn & Suites by Marriott	14	10.0%	1,433	7.0%
Marriott	6	4.3%	1,834	9.0%
Renaissance	3	2.1%	782	3.8%
Residence Inn by Marriott	33	23.6%	3,607	17.6%
SpringHill Suites by Marriott	11	7.9%	1,354	6.6%
Subtotal	**99**	**70.8%**	**13,233**	**64.6%**
Hilton				
Doubletree	2	1.4%	911	4.5%
Embassy Suites	4	2.9%	950	4.6%
Hampton Inn/Hampton Inn & Suites	9	6.4%	1,115	5.4%
Hilton	2	1.4%	462	2.3%
Hilton Garden Inn	6	4.3%	1,174	5.7%
Homewood Suites	2	1.4%	301	1.5%
Subtotal	**25**	**17.8%**	**4,913**	**24.0%**
Hyatt				
Hyatt Summerfield Suites	6	4.3%	828	4.0%
Subtotal	**6**	**4.3%**	**828**	**4.0%**
Other Brand Affiliation/Independent(1)	**10**	**7.1%**	**1,514**	**7.4%**
Total	**140**	**100.0%**	**20,488**	**100.0%**

(1) Following the completion of this offering, we expect to brand or re-brand 5 of these 10 hotels into brands affiliated with Hilton or InterContinental.

For the year ended December 31, 2010, the average occupancy rate for our initial hotels was 69.4%, and the ADR and RevPAR of our initial hotels was $118.46 and $82.22, respectively.

Competitive Strengths

We believe we distinguish ourselves from other hotel owners through the following competitive strengths:

- ***Large, established lodging platform.*** Upon completion of this offering and our formation transactions, we will own 140 hotels with over 20,400 rooms, which would have made us the second largest publicly-traded lodging REIT based on number of hotels and the fifth largest publicly-traded lodging REIT based on number of rooms, as of December 31, 2010. We believe that our scale and existing platform, coupled with our senior management team's breadth of experience, provide us with valuable insights in underwriting potential acquisitions and in asset managing our hotels, facilitate our ability to work effectively with hotel management companies and franchisors and give us significant credibility with hotel sellers.

- ***High quality hotel portfolio.*** Substantially all of our initial hotels operate under strong, premium brands and are located in urban or dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry. We continually seek to further enhance the quality and performance of our initial hotels through an active capital improvement program, following the strategy of Fund II and Fund III, which, between June 2006 and December 2010, invested approximately $127.0 million (or approximately $8,800 per room on a weighted average basis) in the hotels owned by our predecessor during this period. We believe the quality of our portfolio of initial hotels is evidenced by its RevPAR penetration index of 115.7 for the year ended December 31, 2010 and our portfolio-wide guest satisfaction scores that are consistently higher than industry average scores for our respective brands.

- ***Experienced and deep senior management team with a strong track record.*** Our senior management team, led by Messrs. Johnson and Baltimore, has successfully formed and managed RLJ Development and three lodging-focused private equity funds and collectively raised approximately $2.2 billion in capital commitments and completed approximately $5.7 billion in hotel acquisitions and dispositions over the last decade. Our senior management team has lodging and real estate industry experience ranging from 13 to 30 years, and several members of our senior management team have worked together for approximately 10 years. Our senior management team's core competencies include key areas such as acquisitions, asset management, design and construction and finance.

- ***Strong relationships with leading international franchisors.*** We believe that we have strong relationships with several leading international franchisors representing global hotel brands, including Marriott, Hilton and Hyatt. We are the fifth largest owner of Marriott-branded hotels in the United States based on number of hotels and number of rooms. We believe that our senior management team's strong relationships with these leading international franchisors facilitate our ability to work effectively with them, provide us with valuable insight related to brand initiatives and give us access to acquisition opportunities, many of which may not be available to our competitors.

- ***Use of unaffiliated hotel management companies.*** Our initial hotels are managed by 15 independent, third-party hotel management companies. None of the hotel management companies are affiliated with us or our senior management team, which we believe eliminates potential conflicts of interests that exist when using an affiliated hotel management company. We also believe that utilizing multiple hotel management companies gives us access to diverse operating initiatives and best practices that we can utilize to enhance performance and operating

margins across our entire portfolio. We believe that our use of independent hotel management companies also provides us with a greater number of acquisition opportunities.

- ***Prudent and flexible capital structure.*** Upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering as set forth under "Use of Proceeds"), we will have approximately $1.3 billion of indebtedness outstanding, which had a pro forma weighted average interest rate of 5.95% per annum as of December 31, 2010. Of this indebtedness, $211.6 million, or 15.8%, is expected to mature prior to 2013 (assuming we exercise all available extension options). In addition, concurrently with the completion of this offering and our formation transactions, we expect to enter into a three-year, $300 million unsecured revolving credit facility, which we believe will provide us with significant financial flexibility. We believe that our flexible capital structure and our capacity to incur additional indebtedness will allow us to capitalize on favorable acquisition and investment opportunities.

Our Investment and Growth Strategies

Our objective is to generate strong returns for our shareholders by investing primarily in premium-branded, focused-service hotels and compact full-service hotels at prices where we believe we can generate attractive returns on investment and generate long-term value appreciation through aggressive asset management. We intend to pursue this objective through the following investment and growth strategies:

Investment Strategies

- *Targeted ownership of premium-branded, focused-service and compact full-service hotels.* We believe that premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those generated by traditional full-service hotels, while achieving higher profit margins due to their more efficient operating model and less volatile cash flows. We also may invest in compact full-service hotels which have operating characteristics that resemble those of focused-service hotels.

- *Use of premium hotel brands.* We believe in affiliating our hotels with premium brands owned by leading international franchisors such as Marriott, Hilton and Hyatt. Within the focused-service category, we target hotels affiliated with premium brands such as Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn, Homewood Suites by Hilton and Hyatt Place. We believe that utilizing premium brands provides significant advantages because of their guest loyalty programs, worldwide reservation systems, effective product segmentation, global distribution and strong customer awareness.

- *Focus on urban and dense suburban markets.* We focus on owning and acquiring hotels in both urban and dense suburban markets that we believe have multiple demand generators and high barriers to entry. As a result, we believe that these hotels generate higher returns on investment.

Growth Strategies

- *Maximize returns from our initial hotels.* We believe that our initial hotels have the potential to generate significant improvements in RevPAR and EBITDA as a result of our aggressive asset management and the ongoing economic recovery in the United States. We actively monitor and advise our third-party hotel management companies on most aspects of our initial hotels' operations, including property positioning, physical design, capital planning and investment, guest experience and overall strategic direction. We regularly review opportunities to invest in our hotels in an effort to enhance the quality and attractiveness of our hotels, increase their long-term value and generate attractive returns on investment.

- *Pursue a disciplined hotel acquisition strategy.* We seek to acquire additional hotels at prices where we believe we can generate attractive returns on investment. We intend to target acquisition opportunities where we can enhance value by pursuing proactive investment strategies such as renovation, repositioning or re-branding.

- *Pursue a disciplined capital recycling program.* We intend to pursue a disciplined capital allocation strategy designed to maximize the value of our investments by selectively selling hotels that are no longer consistent with our investment strategy or whose returns appear to have been maximized. To the extent that we sell hotels, we intend to redeploy the capital into acquisition and investment opportunities that we believe will achieve higher returns.

The U.S. Lodging Industry and Market Opportunity

We believe that the current market environment presents an opportunity for us to acquire hotels at attractive prices with significant upside potential, as well as an opportunity for us to realize RevPAR and EBITDA growth at our initial hotels. We also believe that our senior management team's extensive network of relationships within the U.S. lodging industry will continue to provide us with access to an ongoing pipeline of attractive acquisition opportunities, many of which may not be available to our competitors.

Operating performance of the U.S. lodging industry declined significantly from the peak in 2007 to 2009, as evidenced by a RevPAR decline of 18.3% during that period (as reported by Smith Travel Research), due to challenging economic conditions created by declining U.S. gross domestic product, or GDP, high levels of unemployment, a significant decline in home prices and a reduction in the availability of credit. While the U.S. lodging industry operating performance has started to improve from trough levels, performance remains significantly below the peak levels achieved in 2007. Hotel owners have been adversely impacted by a rapid decline in the availability of debt financing and the need to fund capital expenditures. We believe the combination of a decline in both hotel operating performance and the availability of debt financing has led to an increase in distressed hotel owners. We also believe these factors could create a number of opportunities for us to acquire high quality hotels at attractive prices and that our strong platform, experience, industry relationships, size and expected access to capital will provide us with advantages relative to many competing buyers. In addition, we believe that acquisition opportunities for focused-service hotels could be particularly attractive due to the combination of a large number of existing hotels in this category and the limited number of large, well-capitalized public REITs focused primarily on investing in focused-service hotels. In fact, according to Smith Travel Research, as of February 2011 there are an estimated four times as many focused-service hotels as full-service hotels within our targeted brand families operating in the United States.

We believe that the operating performance of our initial hotels and of additional hotels that we may acquire will benefit significantly from the combination of an economic recovery and the current rate of expansion of lodging supply, which is below the historical average. We also believe that new hotel supply will likely remain low for several years due to the limited availability of hotel construction financing. The International Monetary Fund estimates that U.S. GDP will grow 2.3% in 2011, and we believe that this economic growth will lead to increased lodging demand. Furthermore, a number of lodging industry research analysts and forecasters project strong RevPAR growth over the next several years. For example, for the U.S. lodging industry as a whole, Colliers PKF Hospitality Research, in its March-May 2011 edition of *Hotel Horizons*, projected RevPAR growth of 7.1% in 2011, 8.9% in 2012, 9.3% in 2013 and 5.4% in 2014.

Risk Factors

You should carefully consider the matters discussed under the heading "Risk Factors" beginning on page 16 of this prospectus prior to deciding whether to invest in our common shares. Some of these risks include:

- We will be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.
- We are dependent on the performance of the third-party hotel management companies that manage the operations of each of our hotels and could be materially and adversely affected if such third-party managers do not manage our hotels in our best interests.
- Restrictive covenants in certain of our hotel management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material adverse effect on us.
- Substantially all of our initial hotels operate under either Marriott or Hilton brands; therefore, we are subject to risks associated with concentrating our portfolio in just two brand families.
- Our long-term growth depends in part on successfully identifying and consummating acquisitions of additional hotels and the failure to make such acquisitions could materially impede our growth.
- The departure of any of our key personnel who have significant experience and relationships in the lodging industry could materially and adversely affect us.
- We expect to have approximately $1.3 billion of debt outstanding, which may materially and adversely affect our operating performance and put us at a competitive disadvantage.
- Our management has limited experience operating a public company, which may impede their ability to successfully manage our business.
- If we do not qualify as a REIT or if we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders.
- Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly.
- Because we will issue a significant number of common shares and OP units in connection with our formation transactions, the recipients could attempt to sell a significant number of common shares in the future upon expiration of any applicable lock-up agreements, which could have a material adverse effect on the market price of our common shares.

Our Financing Strategy

We expect to maintain a prudent capital structure, but do not have a targeted leverage range. Over time, we intend to finance our long-term growth with equity issuances and debt financing having staggered maturities. Initially, our debt will include mortgage debt secured by our hotels and unsecured debt. Upon completion of this offering and our formation transactions, we will have a mix of fixed and floating rate debt, though initially the majority of our debt will either bear interest at fixed rates or effectively bear interest at fixed rates due to interest rate hedges on the debt. Over time, we will seek

to primarily utilize unsecured debt (with the goal of achieving an investment grade credit rating) and a greater percentage of fixed rate and hedged floating rate debt relative to unhedged floating rate debt.

Concurrently with the completion of this offering and our formation transactions, we anticipate entering into a three-year, $300 million unsecured revolving credit facility with affiliates of certain of the underwriters to fund future acquisitions, as well as for hotel redevelopments, capital expenditures and general corporate purposes. See "Our Business and Properties—Our Indebtedness—Revolving Credit Facility."

Our Structure and Formation

Our Structure

We were formed as a Maryland real estate investment trust in January 2011. We will conduct our business through a traditional umbrella partnership real estate investment trust, or UPREIT, in which our hotels are indirectly owned by our operating partnership, RLJ Lodging Trust, L.P., through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of our operating partnership and, upon completion of this offering and our formation transactions, will own approximately % of the OP units in our operating partnership. In the future, we may issue OP units from time to time in connection with acquisitions of hotels or for financing, compensation or other reasons.

In order for the income from our hotel operations to constitute "rents from real property" for purposes of the gross income tests required for REIT qualification, we cannot directly or indirectly operate any of our hotels. Accordingly, we lease each of our initial hotels, and intend to lease any hotels we acquire in the future, to subsidiaries of our TRSs, or TRS lessees, which are wholly-owned by us, and our TRS lessees have engaged, or will engage, third-party hotel management companies to manage our initial hotels, and any hotels we acquire in the future, on market terms. Our TRS lessees pay rent to us that we intend to treat as "rents from real property," provided that the third-party hotel management companies engaged by our TRS lessees to manage our hotels are deemed to be "eligible independent contractors" and certain other requirements are met. Our TRSs are subject to U.S. federal, state and local income taxes applicable to corporations. See "Our Principal Agreements—Hotel Management Agreements."

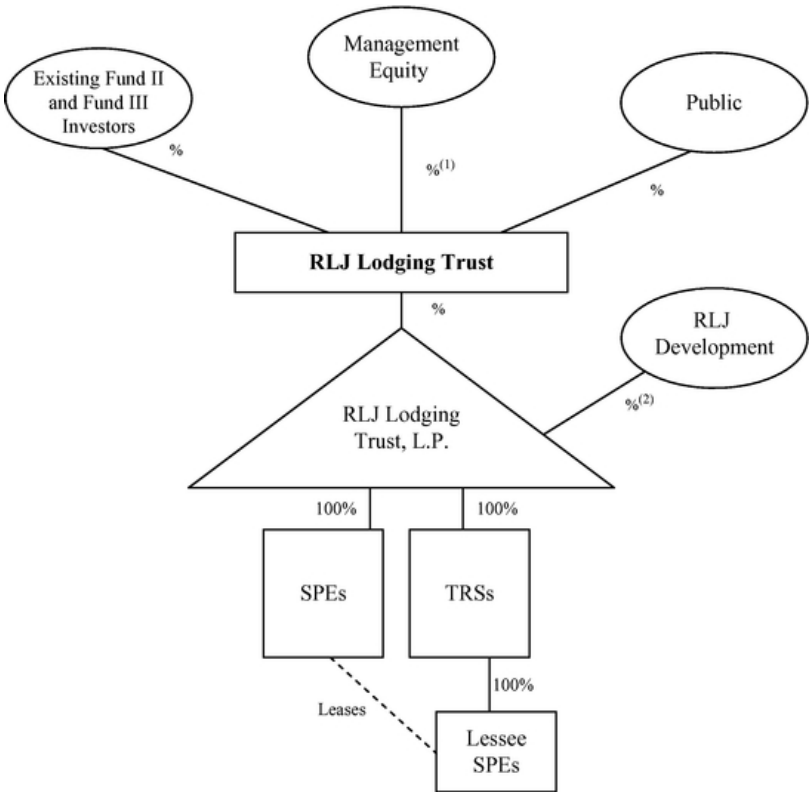
Formation Transactions

Prior to or concurrently with the completion of this offering, we will engage in certain formation transactions which are designed to: consolidate our management platform into our operating partnership; consolidate the ownership of our initial hotels into our operating partnership; facilitate this offering; enable us to raise necessary capital to repay existing indebtedness related to certain of our initial hotels; enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011; and preserve the tax position of certain investors in our predecessor and its related entities that will receive common shares or OP units in connection with our formation transactions, whom we refer to as our continuing investors.

The significant elements of our formation transactions include:

- formation of our company and our operating partnership;
- the merger transactions, pursuant to which we will acquire all of our initial hotels;
- a contribution transaction, pursuant to which we will acquire substantially all of the assets and liabilities of RLJ Development; and
- the assumption by us of indebtedness related to our initial hotels and the repayment of certain outstanding indebtedness secured by certain of our initial hotels.

The following chart depicts our anticipated structure and ownership following (1) the completion of our formation transactions, and (2) the completion of this offering, assuming no exercise by the underwriters of their overallotment option:



(1) Includes common shares to be issued to members of our senior management team in connection with our formation transactions, as well as restricted shares to be granted to our trustees, executive officers and other employees concurrently with the completion of this offering pursuant to our equity incentive plan.

(2) Reflects OP units to be issued to RLJ Development, an entity in which each of Messrs. Johnson and Baltimore and Ross H. Bierkan, our Chief Investment Officer, hold an equity interest, as consideration for substantially all of RLJ Development's assets and liabilities, which are being contributed to us in connection with our formation transactions.

Benefits of This Offering and Our Formation Transactions to Related Parties

In connection with this offering and our formation transactions, each of our executive officers and trustees and certain employees will receive material benefits, including the following (dollar values below are based on the midpoint of the price range set forth on the cover page of this prospectus):

- Robert L. Johnson, Executive Chairman of our board of trustees, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Johnson restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Baltimore restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- Leslie D. Hale, our Chief Financial Officer, will receive common shares, with an initial aggregate value of approximately $ million, in exchange for her ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Ms. Hale restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- Ross H. Bierkan, our Chief Investment Officer, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Bierkan restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- We expect to grant to other employees an aggregate of restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- We expect to grant to each of our non-employee trustees restricted shares under our equity incentive plan, each with an initial aggregate value of approximately $, subject to vesting requirements.

Employment Agreements

We intend to enter into an employment agreement with each of our executive officers that will be effective upon completion of this offering. These employment agreements will provide for base salary, bonus and other benefits, including accelerated vesting of equity awards upon a change in our control or termination of the executive's employment under certain circumstances. See "Management—Executive Compensation—Employment Agreements."

Indemnification Agreements for Officers and Trustees

We intend to enter into indemnification agreements with our trustees and executive officers that will be effective upon completion of this offering. These indemnification agreements will provide indemnification to these persons by us to the maximum extent permitted by Maryland law and certain procedures for indemnification, including advancement by us of certain expenses relating to claims brought against these persons under certain circumstances. See "Management—Limitation of Liability and Indemnification."

Registration Rights Agreements

We expect to enter into registration rights agreements with the entities and individuals receiving our common shares and OP units in connection with our formation transactions, including our executive officers. See "Shares Eligible for Future Sale—Registration Rights Agreements."

Distribution Policy

To satisfy the requirements to qualify as a REIT, and to avoid paying tax on our income, we intend to make regular quarterly distributions of all, or substantially all, of our REIT taxable income (excluding net capital gains) to our shareholders. We intend to make a pro rata distribution with respect to the period commencing upon completion of this offering and ending on , 2011, based on a distribution of $ per common share for a full quarter. On an annualized basis, this would be $ per common share, or an annualized distribution rate of approximately % based on an assumed initial public offering price of $ per common share, which is the midpoint of the price range set forth on the cover page of this prospectus. We do not intend to reduce our initial distribution rate if the underwriters' overallotment option is exercised; however, this could require us to borrow funds to make the distributions or to make the distributions from net offering proceeds. We intend to maintain our initial distribution rate for the 12-month period following completion of this offering unless our actual results of operations, EBITDA, FFO, liquidity, cash flows, financial condition or prospects, economic conditions or other factors differ materially from the assumptions used in projecting our initial distribution rate.

Any future distributions will be at the sole discretion of our board of trustees, and their form, timing and amount, if any, will depend upon a number of factors, including our actual and projected financial condition, liquidity, EBITDA, FFO and results of operations, the revenue we actually receive from our properties, our operating expenses, our debt service requirements, our capital expenditures, prohibitions and other limitations under our financing arrangements, our REIT taxable income, the annual REIT distribution requirements, applicable law and such other factors as our board of trustees deems relevant. To the extent that our cash available for distribution is less than 90% of our REIT taxable income, we may consider various means to cover any such shortfall, including borrowing under our anticipated three-year, $300 million unsecured revolving credit facility or other loans, selling certain of our assets or using a portion of the net proceeds we receive from this offering or future offerings of equity, equity-related or debt securities or declaring taxable share dividends.

Our Tax Status

We intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes, commencing with the taxable year ending December 31, 2011. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code of 1986, as amended, or the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our common shares. We believe that our organization and proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our REIT taxable income that we distribute currently to our shareholders. If we fail to qualify for taxation as a REIT in any taxable year and the statutory relief provisions of the Code do not apply, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Distributions to shareholders in any year in which we are not a REIT would not be deductible by us, nor would they be required to be made. Even if we qualify for taxation as a REIT, we

may be subject to certain U.S. federal, state and local taxes on our income or property, and certain of our TRSs will be subject to U.S. federal, state and local income taxes.

Restrictions on Ownership of our Common Shares

The Code imposes limitations on the concentration of ownership of our shares. To assist us in qualifying as a REIT, our declaration of trust generally prohibits any person or entity (other than a person or entity who has been granted an exception) from directly or indirectly, beneficially or constructively, owning more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of beneficial interest, or preferred shares, of any class or series, by value or by number of shares, whichever is more restrictive. Our declaration of trust also prohibits any person or entity from (1) beneficially owning shares of beneficial interest to the extent that such beneficial ownership would result in our being "closely held" within the meaning of Section 856(h) of the Code (without regard to whether the ownership interest is held during the last half of the taxable year), (2) transferring our shares of beneficial interest to the extent that such transfer would result in our shares of beneficial interest being beneficially owned by less than 100 persons (determined under the principles of Section 856(a)(5) of the Code), (3) beneficially or constructively owning our shares of beneficial interest to the extent such beneficial or constructive ownership would cause any of our income that would qualify as "rents from real property" for purposes of Section 856(d) of the Code to fail to qualify as such, including as a result of any hotel management company failing to qualify as an "eligible independent contractor" or (4) beneficially or constructively owning or transferring our shares of beneficial interest if such ownership or transfer would otherwise cause us to fail to qualify as a REIT under the Code.

Our declaration of trust, however, does permit waivers of the foregoing ownership restrictions that may be granted to shareholders if our board of trustees determines such waivers will not jeopardize our tax status as a REIT. We currently expect that our board of trustees will grant waivers of the ownership limit with respect to two investors who are expected to receive common shares in connection with our formation transactions.

Our Principal Office

Our principal executive offices are located at 3 Bethesda Metro Center, Suite 1000, Bethesda, MD 20814. Our telephone number is (301) 280-7777. We have reserved the website located at www. . The information that will be found on or accessible through our website is not incorporated into, and does not form a part of, this prospectus or any other report or document that we file with or furnish to the Securities and Exchange Commission, or the SEC. We have included our website address as an inactive textual reference and do not intend it to be an active link to our website.

This Offering

Issuer	RLJ Lodging Trust, a Maryland real estate investment trust
Common shares offered by us	common shares, plus up to an additional common shares that we may issue and sell upon the exercise of the underwriters' overallotment option.
Common shares to be outstanding after this offering	shares(1)
Common shares and OP units to be outstanding after this offering	shares and OP units(1)(2)
Use of proceeds	We intend to use the net proceeds of this offering as follows: • approximately $ million will be used to repay approximately $ million of secured indebtedness and approximately $ million in associated prepayment penalties; and • any remaining net proceeds will be used for general business and working capital purposes.
Risk factors	Investing in our common shares involves risks. You should carefully read and consider the information set forth under "Risk Factors" and all other information in this prospectus before making a decision to invest in our common shares.
Proposed NYSE symbol	We have applied to have our common shares listed on the NYSE under the symbol "RLJ."
Conflicts of interest	An affiliate of Wells Fargo Securities, LLC, an underwriter in this offering, is a lender under seven outstanding loans, two of which will be repaid with a portion of the net proceeds of this offering. As such, this affiliate will receive a portion of the net proceeds of this offering that are used to repay such indebtedness. Further, an affiliate of Wells Fargo Securities, LLC is a minority investor in each of Fund II and Fund III, and it will receive an aggregate of common shares in connection with our formation transactions. See "Underwriting (Conflicts of Interest)—Conflicts of Interest."

(1) Includes (a) common shares to be issued in this offering, (b) common shares to be issued in connection with our formation transactions and (c) restricted shares to be granted to our trustees, executive officers and other employees concurrently with the completion of this offering pursuant to our equity incentive plan. Excludes (i) common shares issuable upon exercise of the underwriters' overallotment option and (ii) common shares available for future issuance under our equity incentive plan.

(2) Includes OP units to be issued to RLJ Development in our formation transactions, which units may, subject to certain limitations, be redeemed for cash or, at our option, exchanged for common shares on a one-for-one basis.

Summary Historical and Pro Forma Combined Financial and Operating Data

You should read the following summary historical and pro forma combined financial and operating data, together with "Selected Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical and pro forma combined consolidated financial statements and related notes included elsewhere in this prospectus.

We present herein certain combined consolidated historical financial data for our predecessor, which is not a legal entity, but rather a combination of the real estate hospitality assets, liabilities and operations of Fund II and Fund III and the assets, liabilities and operations of RLJ Development. The historical combined consolidated financial data for our predecessor is not necessarily indicative of our results of operations, cash flows or financial position following the completion of this offering and our formation transactions.

We have not presented our historical financial information because we have not had any corporate activity since our formation other than the issuance of common shares in connection with our initial capitalization and activity in connection with this offering and our formation transactions. Therefore, we do not believe a discussion of our historical results would be meaningful.

The historical combined consolidated balance sheet information as of December 31, 2010 and 2009 of our predecessor and the combined consolidated statements of operations information for each of the years ended December 31, 2010, 2009 and 2008 of our predecessor have been derived from the historical audited combined consolidated financial statements included elsewhere in this prospectus.

Our summary unaudited condensed pro forma combined consolidated financial and operating data for the year ended December 31, 2010 assumes (1) the common shares to be sold in this offering are sold at the midpoint of the price range set forth on the cover page of this prospectus, and (2) the completion of our formation transactions as of January 1, 2010 for the operating data and as of December 31, 2010 for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

	Year Ended December 31,			
	Pro Forma Combined Consolidated	Historical Combined Consolidated		
	2010	2010	2009	2008
	(Unaudited)			
	(In thousands, except share, per share and property data)			
Statement of Operations Data				
Room revenue	$ 608,266	$ 466,608	$ 408,667	$ 463,015
Other hotel revenue	100,298	78,960	73,821	88,804
Total revenue	708,564	545,568	482,488	551,819
Expenses:				
Room expense	137,980	103,333	90,663	97,407
Other hotel expense	298,631	231,237	210,810	235,391
Total hotel operating expense	436,611	334,570	301,473	332,798
Property tax, ground rent and insurance	45,781	34,868	35,667	34,110
Depreciation and amortization	119,316	100,793	96,154	84,390
Impairment loss	—	—	98,372	21,472
General and administrative	19,539	19,599	18,215	18,791
Transaction, pursuit and organization costs	1,447	14,345	8,665	2,100
Total operating expenses	622,694	504,175	558,546	493,661
Operating income (loss)	85,870	41,393	(76,058)	58,158
Interest and other income	3,985	3,986	1,579	2,357
Interest expense	(83,301)	(89,195)	(92,175)	(92,892)
Income (loss) before provision for income tax (expense) benefit	6,554	(43,816)	(166,654)	(32,377)
Income tax (expense) benefit	(1,608)	(945)	(1,801)	945
Income (loss) from continuing operations	4,946	(44,761)	(168,455)	(31,432)
Less: Net income (loss) attributable to the noncontrolling interest	8	(213)	—	—
Distributions to preferred shareholders	—	(62)	(62)	(61)
Net income (loss) available to owners	$ 4,938	$ (44,610)	$ (168,517)	$ (31,493)
Balance Sheet Data (at period end):				
Cash and cash equivalents	$ 275,952	$ 267,454	$ 151,382	$ 156,181
Investment in hotels, net	2,798,342	2,626,690	1,877,583	1,905,653
Total assets	3,209,074	3,045,824	2,202,865	2,213,108
Total debt	1,338,877	1,747,077	1,598,991	1,448,872
Total liabilities	1,409,045	1,822,091	1,717,118	1,592,376
Total owners' equity	1,800,029	1,223,733	485,747	620,732
Total liabilities and owners' equity	3,209,074	3,045,824	2,202,865	2,213,108
Per Share Data:				
Pro forma basic earnings per share				
Pro forma diluted earnings per share				
Pro forma weighted average shares outstanding—basic				
Pro forma weighted average shares outstanding—diluted				
Other Data:				
Number of properties at period end(1)	140	132	117	115
Pro forma Adjusted EBITDA	$ 207,270			
Pro forma Adjusted FFO	125,404			
Cash flows from:				
Operating activities		$ 63,663	$ 28,852	$ 76,978
Investing activities		(786,193)	(198,025)	(130,400)
Financing activities		838,602	164,374	125,706

(1) The historical combined consolidated number of properties includes our initial hotels and the New York LaGuardia Airport Marriott. The pro forma combined consolidated number of properties excludes the New York LaGuardia Airport Marriott, which is expected to be transferred to a third party no later than September 14, 2011.

	Pro Forma Year Ended December 31, 2010 (In thousands)
Reconciliation of FFO(1), Adjusted FFO(1), EBITDA(2) and Adjusted EBITDA(2) to Net Income	
Net income available to owners	$ 4,938
Add (deduct):	
Depreciation and amortization(3)	119,019
FFO	123,957
Add (deduct):	
Transaction and pursuit costs	1,447
Adjusted FFO	$ 125,404
Net income available to owners	$ 4,938
Add (deduct):	
Interest expense(4)	82,656
Interest and other income(5)	(2,398)
Income tax expense	1,608
Depreciation and amortization(3)	119,019
EBITDA	205,823
Add (deduct):	
Transaction and pursuit costs	1,447
Adjusted EBITDA	$ 207,270

(1) We calculate FFO in accordance with standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which defines FFO as net income or loss (calculated in accordance with accounting principles generally accepted in the United States, or GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary and the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures.

We further adjust FFO for certain additional items that are not added to net income in NAREIT's definition of FFO, such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance of our hotels. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

(2) EBITDA is defined as net income or loss excluding: (a) interest expense; (b) provision for income taxes, including income taxes applicable to sale of assets; and (c) depreciation and amortization (including amortization of non-cash share-based compensation). We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and certain non-cash items (primarily depreciation and amortization) from our operating results.

We further adjust EBITDA for certain additional items such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance of our hotels. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs.

(3) Excludes amounts attributable to noncontrolling interest of $297.

(4) Excludes amounts attributable to noncontrolling interest of $645.

(5) Excludes contractual interest income of $1,587 associated with two owned mortgage loans collateralized by hotels.

RISK FACTORS

An investment in our common shares involves risks. Before making an investment decision, you should carefully consider the following risk factors, which address the material risks concerning our business and an investment in our common shares, together with the other information contained in this prospectus. If any of the risks discussed in this prospectus were to occur, our business, prospects, financial condition, liquidity, EBITDA, FFO and results of operations and our ability to service our debt and make distributions to our shareholders could be materially and adversely affected, the market price per common share could decline significantly and you could lose all or a part of your investment. Some statements in this prospectus, including statements in the following risk factors constitute forward-looking statements. Please refer to the section entitled "Cautionary Note Regarding Forward-Looking Statements."

Risks Related to Our Business and Properties

We will be significantly influenced by the economies and other conditions in the specific markets in which we operate, particularly in the metropolitan areas where we have high concentrations of hotels.

Our initial hotels located in the New York, New York, Chicago, Illinois, Austin, Texas, Denver-Boulder, Colorado, Louisville, Kentucky, and the Baltimore, Maryland-Washington, D.C. metropolitan areas accounted for approximately 14.8%, 13.2%, 10.6%, 9.6%, 6.9%, and 5.5%, respectively, of our total pro forma revenue for the year ended December 31, 2010. As a result, we are particularly susceptible to adverse market conditions in these areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could materially and adversely affect us.

We are dependent on the performance of the third-party hotel management companies that manage the operations of each of our hotels and could be materially and adversely affected if such third-party managers do not manage our hotels in our best interests.

Since federal income tax laws restrict REITs and their subsidiaries from operating or managing hotels, we do not operate or manage our hotels. Instead, we lease all of our hotels to subsidiaries of our TRSs, and our TRS lessees retain third-party managers to operate our hotels pursuant to management agreements. We will have entered into 140 hotel management agreements for our initial hotels, 104 of which will be with White Lodging Services, or WLS. We could be materially and adversely affected if any of our third-party managers fail to provide quality services and amenities, fail to maintain a quality brand name or otherwise fail to manage our hotels in our best interest. In addition, from time to time, disputes may arise between us and our third-party managers regarding their performance or compliance with the terms of the hotel management agreements, which in turn could adversely affect our results of operations. We generally will attempt to resolve any such disputes through discussions and negotiations; however, if we are unable to reach satisfactory results through discussions and negotiations, we may choose to terminate our management agreement, litigate the dispute or submit the matter to third-party dispute resolution, the outcome of which may be unfavorable to us.

Under the terms of the hotel management agreements, our ability to participate in operating decisions regarding our hotels is limited to certain matters, including approval of the annual operating budget, and we do not have the authority to require any hotel to be operated in a particular manner (for instance, setting room rates). While our TRS lessees will closely monitor the performance of our third-party managers, our general recourse under the hotel management agreements is limited to termination upon sixty days' notice if we believe our third-party managers are not performing adequately. For example, we have a right to terminate a management agreement with WLS, our largest

provider of management services, if WLS fails to achieve certain hotel performance criteria measured over any two consecutive fiscal years, as outlined in each WLS management agreement. However, even if WLS fails to perform under the terms of a management agreement, it has the option (exercisable a maximum of three times per hotel) to avoid a performance termination by paying a performance deficit fee as specified in the management agreement.

In the event that we terminate any of our management agreements, we can provide no assurances that we could find a replacement manager or that our franchisors will consent to a replacement manager in a timely manner, or at all, or that any replacement manager will be successful in operating our initial hotels. Furthermore, if WLS, as our largest provider of management services, is financially unable or unwilling to perform its obligations pursuant to our management agreements, our ability to find a replacement manager or managers for our WLS-managed hotels could be challenging and time consuming, depending on the number of WLS-managed hotels affected, and could cause us to incur significant costs to obtain new management agreements for the affected hotels. Accordingly, if we lose a significant amount of our WLS management agreements, we could be materially and adversely affected. In addition, many of our existing franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the hotel management company engaged to manage the hotel. If any of the foregoing were to occur, it could have a material adverse effect on us.

Restrictive covenants in certain of our hotel management and franchise agreements contain provisions limiting or restricting the sale or financing of our hotels, which could have a material adverse effect on us.

Hotel management and franchise agreements typically contain restrictive covenants that limit or restrict our ability to sell or refinance a hotel without the consent of the hotel management company or franchisor. Many of our existing franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the hotel management company engaged to manage the hotel. Generally, we may not agree to sell, lease or otherwise transfer particular hotels unless the transferee is not a competitor of the hotel management company or franchisor and the transferee assumes the related hotel management and franchise agreements. For example, substantially all of our management agreements with WLS provide that any sale of a hotel to a purchaser who does not meet all of the requirements under the applicable franchise agreement associated with such hotel must be first approved by WLS. If the hotel management company or franchisor does not consent to the sale or financing of our hotels, we may be prohibited from taking actions that would otherwise be in our and our shareholders' best interests.

Substantially all of our initial hotels operate under either Marriott or Hilton brands; therefore, we are subject to risks associated with concentrating our portfolio in just two brand families.

Upon completion of this offering and our formation transactions, 124 of the 140 of our initial hotels will utilize brands owned by Marriott or Hilton. As a result, our success is dependent in part on the continued success of Marriott and Hilton and their respective brands. We believe that building brand value is critical to increase demand and build customer loyalty. Consequently, if market recognition or the positive perception of Marriott and/or Hilton is reduced or compromised, the goodwill associated with the Marriott- and Hilton-branded hotels in our portfolio may be adversely affected. Furthermore, if our relationship with Marriott or Hilton were to deteriorate or terminate as a result of disputes regarding the management of our hotels or for other reasons, Marriott and/or Hilton could, under certain circumstances, terminate our current franchise licenses with them or decline to provide franchise licenses for hotels that we may acquire in the future. If any of the foregoing were to occur, it could have a material adverse effect on us.

Our long-term growth depends in part on successfully identifying and consummating acquisitions of additional hotels and the failure to make such acquisitions could materially impede our growth.

We can provide no assurances that we will be successful in identifying attractive hotels or that, once identified, we will be successful in consummating an acquisition. We face significant competition for attractive investment opportunities from other well-capitalized investors, some of which have greater financial resources and a greater access to debt and equity capital to acquire hotels than we do. This competition increases as investments in real estate become increasingly attractive relative to other forms of investment. As a result of such competition, we may be unable to acquire certain hotels that we deem attractive or the purchase price may be significantly elevated or other terms may be substantially more onerous. In addition, we expect to finance future acquisitions through a combination of borrowings under a three-year, $300 million unsecured revolving credit facility that we anticipate will be in place following the completion of this offering and our formation transactions, the use of retained cash flows, and offerings of equity and debt securities, which may not be available on advantageous terms, or at all. Any delay or failure on our part to identify, negotiate, finance on favorable terms, consummate and integrate such acquisitions could materially impede our growth.

The departure of any of our key personnel who have significant experience and relationships in the lodging industry, including Robert L. Johnson, Thomas J. Baltimore, Jr. and Ross H. Bierkan, could materially and adversely affect us.

We depend on the experience and relationships of our senior management team, especially Robert L. Johnson, Executive Chairman of our board of trustees, Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees, and Ross H. Bierkan, our Chief Investment Officer, to manage our day-to-day operations and strategic business direction. Messrs. Johnson, Baltimore and Bierkan have 17, 22 and 25 years of experience in the lodging industry, respectively, during which time they have established an extensive network of lodging industry contacts and relationships, including relationships with global and national hotel brands, hotel owners, financiers, operators, commercial real estate brokers, developers and management companies. We can provide no assurances that any of our key personnel will continue their employment with us, even though all of the members of our senior management team are expected to enter into employment agreements with us upon completion of this offering. The loss of services of Messrs. Johnson, Baltimore or Bierkan, or of the services of other members of our senior management team, or any difficulty attracting and retaining other talented and experienced personnel, could adversely affect our ability to source potential investment opportunities, our relationship with global and national hotel brands and other industry participants and the execution of our business strategy. Further, such a loss could be negatively perceived in the capital markets, which could reduce the market value of our common shares.

Our business strategy depends on achieving revenue and net income growth from anticipated increases in demand for hotel rooms; accordingly, any delay or a weaker than anticipated economic recovery could materially and adversely affect us and our growth prospects.

Our initial hotels have experienced declining operating performance across various U.S. markets during the most recent economic recession. Our business strategy depends on achieving revenue and net income growth from anticipated improvement in demand for hotel rooms as part of a future economic recovery. As a result, any delay or a weaker than anticipated economic recovery could materially and adversely affect us and our growth prospects. Furthermore, even if the economy recovers, we cannot provide any assurances that demand for hotel rooms will increase from current levels. If demand does not increase in the near future, or if demand weakens further, our future results of operations and our growth prospects could also be materially and adversely affected.

The ongoing need for capital expenditures at our hotels could have a material adverse effect on us.

Our hotels will have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. The franchisors of our hotels also will require periodic capital improvements as a condition of maintaining the franchise licenses. In addition, our lenders will likely require that we set aside annual amounts for capital improvements to our hotels. The costs of all these capital improvements could materially and adversely affect us.

Any difficulties in obtaining capital necessary to make required periodic capital expenditures and renovation of our hotels could materially and adversely affect our financial condition and results of operations.

Our hotels will require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions or redevelopment of additional hotels will require significant capital expenditures. We may not be able to fund capital improvements on our initial hotels or acquisitions of new hotels solely from cash provided from our operating activities because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions or hotel redevelopment through retained earnings is very limited. Consequently, we expect to rely upon the availability of debt or equity capital to fund capital improvements and acquisitions. In addition, our organizational documents do not limit the amount of debt that we can incur. If we are unable to obtain the capital necessary to make required periodic capital expenditures and renovate our hotels on favorable terms, or at all, our financial condition, liquidity and results of operations could be materially and adversely affected.

Adverse global market and economic conditions and dislocations in the markets could cause us to recognize impairment charges, which could materially and adversely affect our business, financial condition and results of operations.

We continually monitor events and changes in circumstances, including those resulting from the recent economic downturn, that could indicate that the carrying value of the real estate and related intangible assets in which we have an ownership interest may not be recoverable. When circumstances indicate that the carrying value of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related intangible assets to the fair value and recognize an impairment loss. Because our predecessor acquired many of our initial hotels in the last five years, when prices for hotels in many markets were at or near their peaks, we may be particularly susceptible to future non-cash impairment charges as compared to companies that have carrying values well below current market values, which could materially and adversely affect our business, financial condition and results of operations. During 2008 and 2009, our predecessor recognized impairment charges on certain of our hotels of approximately $21.5 million and $98.4 million, respectively, in the aggregate.

Projections of expected future cash flows require management to make assumptions to estimate future occupancy, hotel operating expenses, and the number of years the hotel is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the hotel's fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets on our balance sheet and our results of operations. Ongoing adverse market and economic conditions and market volatility will likely continue to make it difficult to value the hotels owned by us, as well as the value of our interests in any unconsolidated joint ventures and/or our goodwill and other intangible assets. As a result of current adverse market and economic conditions, there may be significant

uncertainty in the valuation, or in the stability of, the cash flows, discount rates and other factors related to such assets that could result in a substantial decrease in their value.

Competition from other hotels in the markets in which we operate could adversely affect occupancy levels and/or ADRs, which could have a material adverse effect on us.

We face significant competition at our hotels from owners and operators of other hotels. These competitors may have an operating model that enables them to offer rooms at lower rates than we can, which, particularly in the current economic environment, could result in those competitors increasing their occupancy at our expense and adversely affecting our ADRs. Given the importance of occupancy and ADR at focused-service and compact full-service hotels, this competition could adversely affect our ability to attract prospective guests, which could materially and adversely affect our results of operations.

Our organizational documents have no limitation on the amount of indebtedness we may incur. As a result, we may become highly leveraged in the future, which could materially and adversely affect us.

Our business strategy contemplates the use of both non-recourse secured and unsecured debt to finance long-term growth. In addition, our organizational documents contain no limitations on the amount of debt that we may incur, and our board of trustees may change our financing policy at any time without shareholder notice or approval. As a result, we may be able to incur substantial additional debt, including secured debt, in the future. Incurring debt could subject us to many risks, including the risks that:

- our cash flows from operations may be insufficient to make required payments of principal and interest;
- our debt may increase our vulnerability to adverse economic and industry conditions;
- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing cash available for distribution to our shareholders, funds available for operations and capital expenditures, future business opportunities or other purposes;
- the terms of any refinancing may not be in the same amount or on terms as favorable as the terms of the existing debt being refinanced; and
- the use of leverage could adversely affect our ability to raise capital from other sources or to make distributions to our shareholders and could adversely affect the market price of our common shares.

If we violate covenants in future agreements relating to indebtedness that we may incur, we could be required to repay all or a portion of our indebtedness before maturity at a time when we might be unable to arrange financing for such repayment on attractive terms, if at all. In addition, future indebtedness agreements may require that we meet certain covenant tests in order to make distributions to our shareholders.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs, including expansion, acquisition and other activities, on favorable terms or at all, which could materially and adversely affect us.

The U.S. stock and credit markets recently have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in

some cases have resulted in the unavailability of financing, even for companies which otherwise are qualified to obtain financing. In addition, several banks and other institutions that historically have been reliable sources of financing have gone out of business, which has reduced significantly the number of lending institutions and the availability of credit. Continued volatility and uncertainty in the stock and credit markets may negatively impact our ability to access additional financing for our capital needs, including expansion, acquisition activities and other purposes, on favorable terms or at all, which may negatively affect our business. Additionally, due to this uncertainty, we may in the future be unable to refinance or extend our debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. If we are not successful in refinancing our debt when it becomes due, we may be forced to dispose of hotels on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity capital or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

Upon completion of this offering and our formation transactions, we expect to have approximately $1.3 billion of debt outstanding, which may materially and adversely affect our operating performance and put us at a competitive disadvantage.

Required repayments of debt and related interest may materially and adversely affect our operating performance. Upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering as set forth under "Use of Proceeds"), we expect to have approximately $1.3 billion of outstanding debt. Increases in interest rates on any variable rate debt would increase our interest expense, which could harm our cash flows and our ability to pay distributions to shareholders.

Because we anticipate that our internally generated cash will be adequate to repay only a portion of our debt at maturity, we expect that we will be required to repay debt through debt refinancings and/or equity offerings. In particular, approximately $140.0 million of our outstanding debt matures in 2011 (assuming we do not exercise any available extension options). The amount of our outstanding debt may adversely affect our ability to refinance our debt.

If we are unable to refinance our debt on acceptable terms, or at all, we may be forced to dispose of one or more of our hotels on disadvantageous terms, which may result in losses to us and may adversely affect cash available for distributions to our shareholders. In addition, if then prevailing interest rates or other factors at the time of refinancing result in higher interest rates upon refinancing, our interest expense would increase, which would adversely affect our future operating results and liquidity.

Our substantial outstanding debt may harm our business, financial condition, liquidity, EBITDA, FFO and results of operations, including:

- requiring us to use a substantial portion of our cash flows to pay principal and interest, which reduces the cash available for distributions to our shareholders;
- placing us at a competitive disadvantage compared to our competitors that have less debt;
- making us vulnerable to the current economic recession, particularly if it continues for the foreseeable future and reduces our flexibility to respond to difficult economic conditions; and
- limiting our ability to borrow more money for operations, capital or finance future acquisitions.

The use of debt to finance future acquisitions could restrict operations, inhibit our ability to grow our business and revenues, and negatively affect our business and financial results.

We intend to incur additional debt in connection with future hotel acquisitions. We may, in some instances, borrow under our anticipated three-year, $300 million unsecured revolving credit facility or borrow new funds to acquire hotels. In addition, we may incur mortgage debt by obtaining loans secured by a portfolio of some or all of the hotels that we own or acquire. If necessary or advisable, we also may borrow funds to make distributions to our shareholders in order to maintain our qualification as a REIT for U.S. federal income tax purposes. To the extent that we incur debt in the future and do not have sufficient funds to repay such debt at maturity, it may be necessary to refinance the debt through debt or equity financings, which may not be available on acceptable terms or at all and which could be dilutive to our shareholders. If we are unable to refinance our debt on acceptable terms or at all, we may be forced to dispose of hotels at inopportune times or on disadvantageous terms, which could result in losses. To the extent we cannot meet our future debt service obligations, we will risk losing to foreclosure some or all of our hotels that may be pledged to secure our obligations.

For tax purposes, a foreclosure of any of our hotels would be treated as a sale of the hotel for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the hotel, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. In addition, we may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our hotels. When we give a guarantee on behalf of an entity that owns one of our hotels, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any of our hotels are foreclosed on due to a default, our ability to pay cash distributions to our shareholders will be limited.

Hedging against interest rate exposure may adversely affect us.

Historically, Fund II and Fund III have used interest rate swaps to hedge against interest rate fluctuations. Subject to maintaining our qualification as a REIT, we intend to manage our exposure to interest rate volatility by using interest rate hedging arrangements, such as cap agreements and swap agreements. These agreements involve the risks that these arrangements may fail to protect or adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

As a result of any of the foregoing, our hedging transactions, which are intended to limit losses, could have a material adverse effect on us.

Our failure to comply with all covenants in our existing or future debt agreements could materially and adversely affect us.

The mortgages on our initial hotels, and hotels that we may acquire in the future likely will, contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable hotel or to discontinue insurance coverage. In addition, our term loan contains negative covenants that restrict, among other things, our ability to incur additional indebtedness or, under certain circumstances, to make distributions to our shareholders. Any credit facility or secured loans that we enter into, including the anticipated three-year, $300 million, unsecured revolving credit facility that we expect to enter into concurrently with the completion of this offering and our formation transactions, likely will contain customary financial covenants, restrictions, requirements and other limitations with which we must comply. Our continued ability to borrow under the anticipated revolving credit facility that we expect to enter into concurrently with the completion of this offering and any other credit facility that we may obtain will be subject to compliance with our financial and other covenants, including covenants relating to debt service coverage ratios and leverage ratios, and our ability to meet these covenants will be adversely affected if U.S. lodging fundamentals do not improve when and to the extent that we expect. In addition, our failure to comply with these covenants, as well as our inability to make required payments, could cause a default under the applicable debt agreement, which could result in the acceleration of the debt and require us to repay such debt with capital obtained from other sources, which may not be available to us or may be available only on unattractive terms. Furthermore, if we default on secured debt, lenders can take possession of the hotel or hotels securing such debt. In addition, debt agreements may contain specific cross-default provisions with respect to specified other indebtedness, giving the lenders the right to declare a default on its debt and to enforce remedies, including acceleration of the maturity of such debt upon the occurrence of a default under such other indebtedness. If we default on several of our debt agreements or any significant debt agreement, we could be materially and adversely affected.

Covenants applicable to future debt could restrict our ability to make distributions to our shareholders and, as a result, we may be unable to make distributions necessary to qualify as a REIT, which could materially and adversely affect us and the market price of our common shares.

We intend to operate in a manner so as to qualify as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, we generally are required to distribute at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gain, each year to our shareholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our REIT taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our shareholders in a calendar year is less than a minimum amount specified under the Code. If, as a result of covenants applicable to our future debt, we are restricted from making distributions to our shareholders, we may be unable to make distributions necessary for us to avoid U.S. federal corporate income and excise taxes and maintain our qualification as a REIT, which could materially and adversely affect us.

Costs associated with, or failure to maintain, franchisor operating standards may materially and adversely affect us.

Under the terms of our franchise license agreements, we are required to meet specified operating standards and other terms and conditions. We expect that our franchisors will periodically inspect our hotels to ensure that we and the hotel management companies follow brand standards. Failure by us, or any hotel management company that we engage, to maintain these standards or other terms and conditions could result in a franchise license being canceled or the franchisor requiring us to undertake a costly property improvement program. If a franchise license is terminated due to our failure to make

required improvements or to otherwise comply with its terms, we also may be liable to the franchisor for a termination payment, which will vary by franchisor and by hotel. Furthermore, under certain circumstances, a franchisor may require us to make capital expenditures, even if we do not believe the capital improvements are necessary or desirable or will result in an acceptable return on our investment. If the funds required to maintain franchisor operating standards are significant, or if a franchise license is terminated, we could be materially and adversely affected.

If we were to lose a franchise license at one or more of our hotels, the value of the affected hotels could decline significantly and we could incur significant costs to obtain new franchise licenses, which could have a material adverse effect on us.

If we were to lose a franchise license, we would be required to re-brand the affected hotel(s). As a result, the underlying value of a particular hotel could decline significantly from the loss of associated name recognition, marketing support, participation in guest loyalty programs and the centralized reservation system provided by the franchisor. Furthermore, the loss of a franchise license at a particular hotel could harm our relationship with the franchisor, which could impede our ability to operate other hotels under the same brand, limit our ability to obtain new franchise licenses from the franchisor in the future on favorable terms, or at all, and cause us to incur significant costs to obtain a new franchise license for the particular hotel. Accordingly, if we lose one or more franchise licenses, we could be materially and adversely affected.

Applicable REIT laws may restrict certain business activities.

As a REIT, we are subject to various restrictions on our income, assets and activities. Business activities that could be impacted by applicable REIT laws include, but are not limited to, activities such as developing alternative uses of real estate, including the development and/or sale of timeshare or condominium units. Due to these restrictions, we anticipate that we will conduct certain business activities, including those mentioned above, in one or more of our TRSs. Our TRSs are taxable as regular C corporations and are subject to federal, state, local, and, if applicable, foreign taxation on their taxable income. In addition, neither we, nor our TRSs can directly manage or operate hotels, making us entirely dependent on unrelated third-party operators/managers.

Federal income tax provisions applicable to REITs may restrict our business decisions regarding the potential sale of a hotel.

The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a "prohibited transaction" that is subject to a 100% excise tax. Under existing law, whether property, including hotels, is held as inventory or primarily for sale to customers in the ordinary course of business is a question of fact that depends upon all of the facts and circumstances with respect to the particular transaction. We intend to hold our hotels for investment with a view to long-term appreciation, to engage in the business of acquiring and owning hotels and to make occasional sales of hotels consistent with our investment objectives. There can be no assurance, however, that the Internal Revenue Service, or the IRS, might not contend that one or more of these sales are subject to the 100% excise tax. Moreover, the potential application of this penalty tax could deter us from selling one or more hotels even though it otherwise would be in the best interests of us and our shareholders for us to do so. There is a statutory safe harbor available for a limited number of sales in a single taxable year of properties that have been owned by a REIT for at least two years, but that safe harbor likely would not apply to all sales transactions that we might otherwise consider. As a result, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect us.

The RevPAR penetration index may not accurately reflect our initial hotels' respective market shares.

We use the RevPAR penetration index, which measures a hotel's RevPAR in relation to the average RevPAR of that hotel's competitive set, as an indicator of a hotel's market share in relation to its competitive set. However, as a particular hotel's competitive set is selected by us and the manager of such hotel, no assurance can be given that a competitive set consisting of different hotels would not lead to a more accurate measure of such hotel's market share. As such, the RevPAR penetration index may not accurately reflect our initial hotels' respective market shares.

Joint venture investments that we make could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners.

We own the Doubletree Metropolitan Hotel New York City through a joint venture with an affiliate of the hotel's property manager. In addition, we may enter into joint ventures in the future to acquire, develop, improve or dispose of hotels, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly-owned hotel or a redevelopment project, including the following:

- we may not have exclusive control over the development, financing, leasing, management and other aspects of the hotel or joint venture, which may prevent us from taking actions that are in our best interest but opposed by our partners;
- joint venture agreements often restrict the transfer of a partner's interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;
- joint venture agreements may contain buy-sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner's interest or selling its interest to that partner;
- we may not be in a position to exercise sole decision-making authority regarding the hotel or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales;
- a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;
- a partner may fail to fund its share of required capital contributions or may become bankrupt, which would mean that we and any other remaining partners generally would remain liable for the joint venture's liabilities;
- relationships with joint-venture partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership;
- disputes between us and a partner may result in litigation or arbitration that would increase our expenses and prevent our officers and trustees from focusing their time and efforts on our business and could result in subjecting the hotels owned by the joint venture to additional risk; or

- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a hotel to liabilities in excess of those contemplated and adversely affect the value of our current and future joint venture investments.

The past performance of Fund I is not necessarily indicative of our future results of operations.

This prospectus includes data relating to the past performance of Fund I. Although Fund I was sponsored and managed by members of our senior management team, including Messrs. Johnson and Baltimore, Fund I's investment portfolio operated in a different economic environment than our initial hotels and, therefore, the past performance of Fund I is not necessarily indicative of our future results, and we can provide no assurances that we will be able to replicate or improve upon Fund I's performance.

Risks Related to the Lodging Industry

Our ability to make distributions to our shareholders may be adversely affected by various operating risks common to the lodging industry, including competition, over-building and dependence on business travel and tourism.

We plan to own hotels that have different economic characteristics than many other real estate assets. A typical office property, for example, has long-term leases with third-party tenants, which provides a relatively stable long-term stream of revenue. Hotels, on the other hand, generate revenue from guests that typically stay at the hotel for only a few nights, which causes the room rate and occupancy levels at each of our hotels to change every day, and results in earnings that can be highly volatile.

In addition, our hotels will be subject to various operating risks common to the lodging industry, many of which are beyond our control, including, among others, the following:

- competition from other hotels in the markets in which we operate;
- over-building of hotels in the markets in which we operate, which results in increased supply and will adversely affect occupancy and revenues at our hotels;
- dependence on business and commercial travelers and tourism;
- increases in energy costs and other expenses affecting travel, which may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- requirements for periodic capital reinvestment to repair and upgrade hotels;
- increases in operating costs due to inflation and other factors that may not be offset by increased room rates;
- changes in interest rates;
- changes in the availability, cost and terms of financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;
- adverse effects of international, national, regional and local economic and market conditions;
- unforeseen events beyond our control, such as terrorist attacks, travel-related health concerns, including pandemics and epidemics such as the H1N1 influenza, the avian bird influenza and SARS, imposition of taxes or surcharges by regulatory authorities, travel-related accidents and

unusual weather patterns, including natural disasters such as hurricanes, tsunamis or earthquakes;

- adverse effects of continued or worsening conditions in the lodging industry; and
- risks generally associated with the ownership of hotels and real estate, as we discuss in detail below.

The occurrence of any of the foregoing could materially and adversely affect us.

The seasonality of the lodging industry could have a material adverse effect on us.

The lodging industry is seasonal in nature, which can be expected to cause quarterly fluctuations in our revenues. Our quarterly earnings may be adversely affected by factors outside our control, including weather conditions and poor economic factors in certain markets in which we operate. For example, our initial hotels in the Chicago, Illinois metropolitan area experience lower revenues and profits during the winter months of December through March while our initial hotels in Florida generally have higher revenues in the months of January through April. This seasonality can be expected to cause periodic fluctuations in a hotel's room revenues, occupancy levels, room rates and operating expenses. We can provide no assurances that our cash flows will be sufficient to offset any shortfalls that occur as a result of these fluctuations. As a result, we may have to enter into short-term borrowings in certain quarters in order to make distributions to our shareholders, and we can provide no assurances that such borrowings will be available on favorable terms, if at all. Consequently, volatility in our financial performance resulting from the seasonality of the lodging industry could have a material adverse effect on us.

The cyclical nature of the lodging industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The lodging industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the lodging industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

Our acquisition, redevelopment, repositioning, renovation and re-branding activities are subject to various risks, any of which could, among other things, result in disruptions to our hotel operations, strain management resources and materially and adversely affect our business.

We intend to acquire, redevelop, reposition, renovate and re-brand hotels, subject to the availability of attractive hotels or projects and our ability to undertake such activities on satisfactory terms. In deciding whether to undertake such activities, we will make certain assumptions regarding the expected future performance of the hotel or project. However, newly acquired, redeveloped, renovated, repositioned or re-branded hotels may fail to perform as expected and the costs necessary to bring such hotels up to franchise standards may exceed our expectations, which may result in the hotels' failure to achieve projected returns.

In particular, to the extent that we engage in the activities described above, they could pose the following risks to our ongoing operations:

- we may abandon such activities and may be unable to recover expenses already incurred in connection with exploring such opportunities;
- acquired, redeveloped, renovated or re-branded hotels may not initially be accretive to our results, and we and the hotel management companies may not successfully manage newly acquired, renovated, redeveloped, repositioned or re-branded hotels to meet our expectations;
- we may be unable to quickly, effectively and efficiently integrate new acquisitions, particularly acquisitions of portfolios of hotels, into our existing operations;
- our redevelopment, repositioning, renovation or re-branding activities may not be completed on schedule, which could result in increased debt service and other costs and lower revenues; and
- management attention may be diverted by our acquisition, redevelopment, repositioning or re-branding activities, which in some cases may turn out to be less compatible with our growth strategy than originally anticipated.

The occurrence of any of the foregoing events, among others, could materially and adversely affect our business.

Six of our initial hotels will be subject to ground leases; if we are found to be in breach of a ground lease or are unable to renew a ground lease, we could be materially and adversely affected.

Six of our initial hotels are on land subject to ground leases. Accordingly, we only own a long-term leasehold or similar interest in those six hotels. If we are found to be in breach of a ground lease, we could lose the right to use the hotel. In addition, unless we can purchase a fee interest in the underlying land and improvements or extend the terms of these leases before their expiration, as to which no assurance can be given, we will lose our right to operate these properties and our interest in the improvements upon expiration of the leases. Our ability to exercise any extension options relating to our ground leases is subject to the condition that we are not in default under the terms of the ground lease at the time that we exercise such options, and we can provide no assurances that we will be able to exercise any available options at such time. Furthermore, we can provide no assurances that we will be able to renew any ground lease upon its expiration. If we were to lose the right to use a hotel due to a breach or non-renewal of the ground lease, we would be unable to derive income from such hotel and would be required to purchase an interest in another hotel to attempt to replace that income, which could materially and adversely affect us.

We will not recognize any increase in the value of the land or improvements subject to our ground leases and may only receive a portion of compensation paid in any eminent domain proceeding with respect to the hotel.

Unless we purchase a fee interest in the land and improvements subject to our ground leases, we will not have any economic interest in the land or improvements at the expiration of our ground leases and therefore we will not share in any increase in value of the land or improvements beyond the term of a ground lease, notwithstanding our capital outlay to purchase our interest in the hotel or fund improvements thereon, and will lose our right to use the hotel. Furthermore, if the state or federal government seizes a hotel subject to a ground lease under its eminent domain power, we may only be entitled to a portion of any compensation awarded for the seizure.

The increasing use of Internet travel intermediaries by consumers may materially and adversely affect our profitability.

Although a majority of rooms sold on the Internet are sold through websites maintained by the hotel franchisors and managers, including Marriott and Hilton, some of our hotel rooms will be booked through Internet travel intermediaries. Typically, these Internet travel intermediaries purchase rooms at a negotiated discount from participating hotels, which could result in lower room rates than the franchisor or manager otherwise could have obtained. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and any hotel management companies that we engage. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality, such as "three-star downtown hotel," at the expense of brand identification or quality of product or service. If consumers develop brand loyalties to Internet reservations systems rather than to the brands under which our hotels are franchised, the value of our hotels could deteriorate and our business could be materially and adversely affected. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

Future terrorist attacks or changes in terror alert levels could materially and adversely affect us.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries over the past several years, often disproportionately to the effect on the overall economy. The extent of the impact that actual or threatened terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined, but any such attacks or the threat of such attacks could have a material adverse effect on travel and hotel demand and our ability to insure our hotels, which could materially and adversely affect us.

The outbreak of influenza or other widespread contagious disease could reduce travel and adversely affect hotel demand, which would have a material adverse effect on us.

The widespread outbreak of an infectious or contagious disease in the U.S., such as the H1N1 virus, could reduce travel and adversely affect demand within the lodging industry. If demand at our hotels decreases significantly or for a prolonged period of time as a result of an outbreak of an infectious or contagious disease, our revenue would be adversely affected, which could have a material adverse effect on us.

Risks Related to Our Organization and Structure

Our management has limited experience operating a public company, which may impede their ability to successfully manage our business.

Our management has limited experience operating a public company. Upon completion of this offering, we will be required to develop and implement control systems and procedures to assist us in

qualifying and maintaining our qualification as a public REIT, satisfying our periodic and current reporting requirements under applicable SEC regulations and complying with NYSE listing standards. As a result, substantial work on our part will be required to implement and execute appropriate reporting and compliance processes and assess their design, remediate any deficiencies identified and test the operation of such processes. We have limited experience implementing and executing such processes in a public company, and this process is expected to be both costly and challenging. We cannot assure you that our management's past experience will be sufficient to develop and implement these systems and procedures and to operate our company successfully. Failure to effectively develop and implement such systems, policies and procedures could hinder our ability to operate as a public company and adversely affect our results of operations, cash flows and ability to make distributions to our shareholders.

The share ownership limits imposed by the Code for REITs and our declaration of trust may restrict share transfers and/or business combination opportunities, particularly if our management and board of trustees do not favor a combination proposal.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year. Our declaration of trust, with certain exceptions, authorizes our board of trustees to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of trustees, no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive.

Our board may, in its sole discretion, grant an exemption to the share ownership limits, subject to certain conditions and the receipt by our board of certain representations and undertakings. Our board of trustees currently expects to grant an exemption from our ownership limits to two investors who will receive common shares in our formation transactions. During the time that such waiver is effective, the excepted holders will be subject to an increased ownership limit. As a condition to granting such excepted holder limit, the excepted holders will be required to make representations and warranties to us, which are intended to ensure that we will continue to meet the REIT ownership requirements. The excepted holders must inform us if any of these representations becomes untrue or is violated, in which case such excepted holder will lose its exemption from the ownership limit.

In addition, our board of trustees may change the share ownership limits. Our declaration of trust also prohibits any person from (1) beneficially or constructively owning, as determined by applying certain attribution rules of the Code, our shares if that would result in us being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT, including, but not limited to, as a result of any "eligible independent contractor" that operates a "qualified lodging facility" (each as defined in the Code) on behalf of a TRS failing to qualify as such, or us having significant non-qualifying income from "related" parties, or (2) transferring shares if such transfer would result in our shares being owned by fewer than 100 persons. The share ownership limits contained in our declaration of trust key off the ownership at any time by any "person," which term includes entities, and take into account direct and indirect ownership as determined under various ownership attribution rules in the Code. The share ownership limits also might delay or prevent a transaction or a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Our authorized but unissued common shares and preferred shares may prevent a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Our declaration of trust authorizes us to issue additional authorized but unissued common or preferred shares. In addition, our board of trustees may, without shareholder approval, amend our declaration of trust to increase the aggregate number of our common shares or the number of shares of any class or series of preferred shares that we have authority to issue and classify or reclassify any unissued common shares or preferred shares and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of trustees may establish a series of common shares or preferred shares that could delay or prevent a transaction or a change in our control that might involve a premium price for our common shares or otherwise be in the best interests of our shareholders.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law, or MGCL, that are applicable to Maryland real estate investment trusts may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in our control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then-prevailing market price of our common shares, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested shareholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our voting shares or an affiliate or associate of ours who was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting shares at any time within the two-year period immediately prior to the date in question) for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter impose fair price and/or supermajority and shareholder voting requirements on these combinations; and

- "control share" provisions that provide that "control shares" of our company (defined as voting shares that, when aggregated with other shares controlled by the shareholder, entitle the shareholder to exercise one of three increasing ranges of voting power in electing trustees) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

As permitted by Maryland law, we have elected, by resolution of our board of trustees, to opt out of the business combination provisions of the MGCL and, pursuant to a provision in our bylaws, to exempt any acquisition of our shares from the control share provisions of the MGCL. However, our board of trustees may by resolution elect to repeal the exemption from the business combination provisions of the MGCL and may by amendment to our bylaws opt into the control share provisions of the MGCL at any time in the future.

Certain provisions of the MGCL applicable to Maryland real estate investment trusts permit our board of trustees, without shareholder approval and regardless of what is currently provided in our declaration of trust or bylaws, to adopt certain mechanisms, some of which (for example, a classified board) we do not have. These provisions may have the effect of limiting or precluding a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in our control under circumstances that otherwise could provide the holders of our common shares with the opportunity to realize a premium over the then current market price. Our declaration of trust contains a provision whereby we will elect, at such time as we become eligible to do so, to be subject to the

provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of trustees. See "Material Provisions of Maryland Law and of Our Declaration of Trust and Bylaws."

Conflicts of interest could arise between the interests of our shareholders and the interests of holders of OP units in our operating partnership, which may impede business decisions that could benefit our shareholders.

Conflicts of interest could arise as a result of the relationships between us, on the one hand, and our operating partnership or any limited partner thereof, on the other. Our trustees and officers have duties to us and our shareholders under applicable Maryland law in connection with their management of our company. At the same time, we, as general partner of our operating partnership, have fiduciary duties and obligations to our operating partnership and its limited partners under Delaware law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners may come into conflict with the duties of our trustees and officers to our company and our shareholders. These conflicts may be resolved in a manner that is not in the best interests of our shareholders.

Our conflict of interest policy may not be successful in eliminating the influence of future conflicts of interest that may arise between us and our trustees, officers and employees.

Effective upon completion of this offering, we intend to adopt a policy that any transaction, agreement or relationship in which any of our trustees, officers or employees has a material direct or indirect pecuniary interest must be approved by a majority of our disinterested trustees. Other than this policy, however, we may not adopt additional formal procedures for the review and approval of conflict of interest transactions generally. As such, our policies and procedures may not be successful in eliminating the influence of conflicts of interest. See "Investment Policies and Policies with Respect to Certain Activities—Conflict of Interest Policies."

We may pursue less vigorous enforcement of terms of the merger and other agreements entered into in connection with our formation transactions because of conflicts of interest with certain of our officers and related parties.

Pursuant to the merger and other agreements entered into in connection with our formation transactions, Fund II, Fund III, the general partners of each of Fund II and Fund III and RLJ Development made limited representations and warranties to us regarding potential material adverse impacts on the hotels and other assets to be acquired by us in our formation transactions and agreed to a $25.0 million holdback of the total consideration paid in the form of common shares or OP units to such parties in our formation transactions to indemnify us for breaches of such representations and warranties. In addition, we will enter into an employment agreement with each of our executive officers. Because of our desire to maintain ongoing relationships with our executive officers and other contributors, we may choose not to enforce, or to enforce less vigorously, our rights under these agreements.

RLJ Acquisition, Inc., a special purpose acquisition company founded by Robert L. Johnson, our Executive Chairman, could acquire operating companies that may compete with us, which could have a material adverse effect on us.

Robert L. Johnson, our Executive Chairman, founded and serves as chairman of the board of directors of RLJ Acquisition, Inc., a special purpose acquisition company that recently raised approximately $143.8 million of equity proceeds in a blank-check public offering to acquire one or more operating businesses. Although RLJ Acquisition, Inc. was not formed with the specific intent to acquire assets in the lodging industry, its organizational documents and investment guidelines do not preclude it from acquiring operating businesses that own and operate hotels, including premium-branded, focused-service and compact full-service hotels. As a result, until RLJ Acquisition, Inc. has

fully invested the proceeds of its offering, it could acquire operating businesses that compete with us for investment opportunities. RLJ Acquisition, Inc. will be liquidated if it fails to consummate a business acquisition prior to November 22, 2013. Furthermore, if and to the extent that RLJ Acquisition, Inc. acquires one or more operating companies that compete with us, there could be conflicts of interest due to Mr. Johnson's roles with both RLJ Acquisition, Inc. and us, which could, among other things, result in us not being presented with certain investment opportunities and the diversion of Mr. Johnson's attention away from our business, either of which could have a material adverse effect on us.

The consideration paid by us in exchange for the contribution of our initial hotels to us in our formation transactions may exceed the fair market value of these assets.

The amount of consideration we will pay for our initial hotels was not negotiated on an arm's-length basis. Further, the value of the common shares that we will issue as consideration for the hotels that we will acquire in our formation transactions will increase or decrease if the market price of our common shares increases or decreases. The initial public offering price of our common shares will be determined in consultation with the underwriters. Among the factors that will be considered are our record of operations, our management, our historical and projected net income, EBITDA, FFO and cash available for distribution, our anticipated dividend yield, our growth prospects, the quality of our portfolio, current market valuations, financial performance and dividend yields of publicly-traded companies considered by us and the underwriters to be comparable to us and the current state of the lodging industry and the economy as a whole. The initial public offering price will not necessarily bear any relationship to the book value or fair market value of our initial hotels. As a result, the fair market value of the common shares we issue in our formation transactions may exceed the fair market value of our initial hotels.

Certain of our executive officers exercised significant influence with respect to the terms of our formation transactions.

We did not conduct arm's-length negotiations with certain of our executive officers with respect to the terms of our formation transactions, including the terms of the merger agreements, contribution agreement and the employment agreements with each of our executive officers. Therefore, the terms of these agreements may not be as favorable to us as if they were so negotiated. In structuring our formation transactions, certain of our executive officers exercised significant influence on the type and level of benefits that they and other members of our senior management team will receive from us, including the number of common shares and/or OP units that they will receive in connection with our formation transactions and the benefits our senior management team will receive from us for their services.

Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us.

Provisions in the partnership agreement for our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or a change in our control, although some shareholders might consider such proposals, if made, desirable.

Our operating partnership may issue OP units to third parties without the consent of our shareholders, which would reduce our ownership percentage in our operating partnership and would have a dilutive effect on the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our shareholders.

After giving effect to this offering, we will own approximately % of the outstanding OP units in our operating partnership. We may, in connection with our acquisition of hotels or otherwise, issue OP units to third parties in the future. Such issuances would reduce our ownership percentage in our operating partnership and affect the amount of distributions made to us by our operating partnership and, therefore, the amount of distributions we can make to our shareholders. Because you will not directly own OP units, you will not have any voting rights with respect to any such issuances or other partnership level activities of our operating partnership.

Termination of the employment agreements with our executive officers could be costly and prevent a change in our control.

The employment agreements that we intend to enter into with each of our executive officers are expected to provide that, if their employment with us terminates under certain circumstances (including upon a change in our control), we may be required to pay them significant amounts of severance compensation, including accelerated vesting of equity awards, thereby making it costly to terminate their employment. Furthermore, these provisions could delay or prevent a transaction or a change in our control that might involve a premium paid for our common shares or otherwise be in the best interests of our shareholders.

Our declaration of trust contains provisions that make removal of our trustees difficult, which could make it difficult for our shareholders to effect changes to our management.

Our declaration of trust provides that, subject to the rights of holders of one or more classes or series of preferred shares to elect or remove one or more trustees, a trustee may be removed only for cause and only by the affirmative vote of holders of at least two-thirds of the votes entitled to be cast in the election of trustees and that our board of trustees has the exclusive power to fill vacant trusteeships, even if the remaining trustees do not constitute a quorum. These provisions make it more difficult to change our management by removing and replacing trustees and may delay or prevent a change in our control that is in the best interests of our shareholders.

Our board of trustees is expected to approve very broad investment guidelines for us and will not review or approve each investment decision made by our senior management team.

Our senior management team will be authorized by our board of trustees to follow broad investment guidelines and, therefore, has great latitude in determining the assets that are proper investments for us, as well as the individual investment decisions. Our senior management team may make investments with lower rates of return than those anticipated under current market conditions and/or may make investments with greater risks to achieve those anticipated returns. Our board of trustees will not review or approve each proposed investment by our senior management team.

We may change our operational policies, investment guidelines and our investment and growth strategies without shareholder consent, which may subject us to different and more significant risks in the future, which could materially and adversely affect us.

Our board of trustees will determine our operational policies, investment guidelines and our investment and growth strategies. Our board of trustees may make changes to, or approve transactions that deviate from, those policies, guidelines and strategies without a vote of, or notice to, our shareholders. This could result in us conducting operational matters, making investments or pursuing

different investment or growth strategies than those contemplated in this prospectus. Under any of these circumstances, we may expose ourselves to different and more significant risks in the future, which could materially and adversely affect us.

Our rights and the rights of our shareholders to take action against our trustees and officers are limited, which could limit our shareholders' recourse in the event of actions not in our shareholders' best interests.

Under Maryland law generally, a trustee is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, trustees are presumed to have acted with this standard of care. In addition, our declaration of trust limits the liability of our trustees and officers to us and our shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the trustee or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our declaration of trust and bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any present or former trustee or officer who is made or threatened to be made a party to the proceeding by reason of his or her service to us in that capacity. In addition, we may be obligated to advance the defense costs incurred by our trustees and officers. As a result, we and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the current provisions in our declaration of trust and bylaws or that might exist with other companies.

If we fail to establish and maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.

In connection with operating as a public company, we will be required to provide reliable financial statements and reports to our shareholders. To monitor the accuracy and reliability of our financial reporting, we will establish an internal audit function that will oversee our internal controls. Our predecessor has documented and developed an initial accounting policy framework and accounting procedures manual for our use, but we can provide no assurances that such procedures will be adequate to provide reasonable assurance to our shareholders regarding the reliability of our financial reporting and the preparation of our financial statements. In addition, we are developing and documenting current policies and procedures with respect to company-wide business processes and cycles in order to implement effective internal control over financial reporting. We will establish, or cause our third-party hotel management companies to establish, controls and procedures designed to ensure that hotel revenues and expenses are properly recorded at our hotels. While we intend to undertake substantial work to comply with Section 404 of the Sarbanes-Oxley Act of 2002, we cannot be certain that we will be successful in implementing or maintaining effective internal control over our financial reporting and may determine in the future that our existing internal controls need improvement. If we fail to implement and comply with proper overall controls, we could be materially harmed or we could fail to meet our reporting obligations. In addition, the existence of a material weakness or significant deficiency could result in errors in our financial statements that could require a restatement, cause us to fail to meet our reporting obligations, result in increased costs to remediate any deficiencies, attract regulatory scrutiny or lawsuits and cause investors to lose confidence in our reported financial information, leading to a substantial decline in the market price of our common shares.

Risks Related to the Real Estate Industry

The illiquidity of real estate investments could significantly impede our ability to respond to changing economic, financial, and investment conditions or changes in the operating performance of our properties, which could adversely affect our cash flows and results of operations.

Real estate investments, including the focused-service and compact full-service hotels in our portfolio, are relatively illiquid. As a result, we may not be able to sell a hotel or hotels quickly or on favorable terms in response to changing economic, financial and investment conditions or changes in the hotel's operating performance when it otherwise may be prudent to do so. Current conditions in the U.S. economy and stock and credit markets have made it difficult to sell hotels at attractive prices. We cannot predict whether we will be able to sell any hotel we desire to sell for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a hotel. We may be required to expend funds to correct defects or to make improvements before a hotel can be sold, and we cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations.

Moreover, the Code imposes restrictions on a REIT's ability to dispose of properties that are not applicable to other types of real estate companies. In particular, the tax laws applicable to REITs require that we hold our hotels for investment, rather than primarily for sale in the ordinary course of business, which may cause us to forego or defer sales of hotels that otherwise would be in our best interests. Therefore, we may not be able to vary our portfolio promptly in response to economic or other conditions or on favorable terms, which may adversely affect our cash flows, our ability to make distributions to shareholders and the market price of our common shares.

In addition, our ability to dispose of some of our hotels could be constrained by their tax attributes. Hotels which we own for a significant period of time or which we acquire through tax deferred contribution transactions in exchange for OP units in our operating partnership may have low tax bases. If we dispose of these hotels outright in taxable transactions, we may be required to distribute the taxable gain to our shareholders under the requirements of the Code applicable to REITs or to pay tax on that gain, either of which, in turn, would impact our cash flow and increase our leverage. In some cases, we may be restricted from disposing of properties contributed to us in the future in exchange for our OP units under tax protection agreements with contributors unless we incur additional costs related to indemnifying those contributors. To dispose of low basis or tax-protected hotels efficiently, we may from time to time use like-kind exchanges, which qualify for non-recognition of taxable gain, but can be difficult to consummate and result in the hotel for which the disposed assets are exchanged inheriting their low tax bases and other tax attributes.

Many real estate costs are fixed, even if revenue from our hotels decreases.

Many costs, such as real estate taxes, insurance premiums and maintenance costs, generally are not reduced even when a hotel is not fully occupied, room rates decrease or other circumstances cause a reduction in revenues. In addition, newly acquired hotels may not produce the revenues we anticipate immediately, or at all, and the hotel's operating cash flow may be insufficient to pay the operating expenses and debt service associated with these new hotels. If we are unable to offset real estate costs with sufficient revenues across our portfolio, our financial performance and liquidity could be materially and adversely affected.

Uninsured and underinsured losses at our hotels could materially and adversely affect us.

We intend to maintain comprehensive insurance on each of our initial hotels and any hotels that we acquire, including liability, fire and extended coverage, of the type and amount we believe are customarily obtained for or by hotel owners. There are no assurances that coverage will be available at reasonable rates. Various types of catastrophic losses, like windstorms, earthquakes and floods, losses from foreign terrorist activities such as those on September 11, 2001, or losses from domestic terrorist activities such as the Oklahoma City bombing on April 19, 1995, may not be insurable or may not be economically insurable. Even when insurable, these policies may have high deductibles and/or high premiums. Lenders may require such insurance and our failure to obtain such insurance could constitute a default under loan agreements, which could have a material adverse effect on us.

In the event of a substantial loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the hotel. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotel, which could have a material adverse effect on us.

In addition, insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. With the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, United States insurers cannot exclude conventional chemical, biological, nuclear and radiation terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In many cases, mortgage lenders have begun to insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our hotels. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses, which could have a material adverse effect on us.

We may be subject to unknown or contingent liabilities related to recently acquired hotels and the hotels that we may acquire in the future, which could have a material adverse effect on us.

Our recently acquired hotels, and the hotels that we may acquire in the future, may be subject to unknown or contingent liabilities for which we may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under the transaction agreements related to purchase of the hotels we acquire may not survive the completion of the transactions. Furthermore, indemnification under such agreements may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with these hotels may exceed our expectations, and we may experience other unanticipated adverse effects, all of which may materially and adversely affect us.

Compliance or failure to comply with the Americans with Disabilities Act and other safety regulations and requirements could result in substantial costs.

Under the Americans with Disabilities Act of 1990 and the Accessibility Guidelines promulgated thereunder, which we refer to collectively as the ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. In July 2010, the Department of Justice proposed a substantial number of changes to the ADA, which were published in September 2010. The new guidelines could cause some of our hotels to incur costly measures to become fully compliant. If we are required to make substantial modifications to the hotels that we acquire, whether to comply with the ADA or other changes in governmental rules and regulations, we could be materially and adversely affected.

Our hotels also are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements would require significant unanticipated expenditures that would affect our cash flow and results of operations. If we incur substantial costs to comply with the ADA or other safety regulations and requirements, our financial condition, results of operations, the market price of our common shares, cash flows and our ability to satisfy our debt obligations and to make distributions to our shareholders could be adversely affected.

We could incur significant, material costs related to government regulation and litigation with respect to environmental matters, which could have a material adverse effect on us.

Our hotels are subject to various U.S. federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of a hotel, to perform or pay for the clean up of contamination (including hazardous substances, asbestos and asbestos-containing materials, waste or petroleum products) at, on, under or emanating from the hotel and to pay for natural resource damages arising from such contamination. Such laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused such contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned a property at the time it became contaminated, it is possible we could incur cleanup costs or other environmental liabilities even after we sell hotels. Contamination at, on, under or emanating from our hotels also may expose us to liability to private parties for costs of remediation and/or personal injury or property damage. In addition, environmental laws may create liens on contaminated sites in favor of the government for damages and costs it incurs to address such contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which the properties may be used or businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

In addition, our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew, and waste management. Some of our hotels routinely handle and use hazardous or regulated substances and wastes as part of their operations, which substances and wastes are subject to regulation (*e.g.*, swimming pool chemicals). Our hotels incur costs to comply with these

environmental, health and safety laws and regulations and could be subject to fines and penalties for non-compliance with applicable requirements.

Certain of our initial hotels contain, and those that we acquire in the future may contain, or may have contained, asbestos-containing material, or ACM. Federal, state and local environmental, health and safety laws require that ACM be properly managed and maintained, and include requirements to undertake special precautions, such as removal or abatement, if ACM would be disturbed during maintenance, renovation or demolition of a building. Such laws regarding ACM may impose fines and penalties on building owners, employers and operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

When excessive moisture accumulates in buildings or on building materials, mold growth may occur, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Some molds may produce airborne toxins or irritants. Indoor air quality issues can also stem from inadequate ventilation, chemical contamination from indoor or outdoor sources, and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants above certain levels can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability to third parties if property damage or personal injury occurs.

Liabilities and costs associated with environmental contamination at, on, under or emanating from our properties, defending against claims related to alleged or actual environmental issues, or complying with environmental, health and safety laws could be material and could materially and adversely affect us. We can make no assurances that changes in current laws or regulations or future laws or regulations will not impose additional or new material environmental liabilities or that the current environmental condition of our hotels will not be affected by our operations, the condition of the properties in the vicinity of our hotels, or by third parties unrelated to us. The discovery of material environmental liabilities at our properties could subject us to unanticipated significant costs, which could significantly reduce or eliminate our profitability and the cash available for distribution to our shareholders.

We face possible risks associated with the physical effects of climate change.

We cannot predict with certainty whether climate change is occurring and, if so, at what rate. However, the physical effects of climate change could have a material adverse effect on us. For example, many of our properties are located along the Gulf and East coasts. To the extent climate change causes changes in weather patterns, our markets could experience increases in storm intensity and rising sea-levels. Over time, these conditions could result in declining hotel demand or our inability to operate the affected hotels at all. Climate change also may have indirect effects on our business by increasing the cost of (or making unavailable) property insurance on terms we find acceptable, increasing the cost of energy and increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on us.

Legislative or regulatory tax changes related to REITs could materially and adversely affect us.

There are a number of issues associated with an investment in a REIT that are related to the federal income tax laws, including, but not limited to, the consequences of a company's failing to qualify or to continue to qualify as a REIT and the tax rates applicable to REITs and their shareholders. At any time, the federal income tax laws governing REITs or the administrative

interpretations of those laws may be amended or modified. Any new laws or interpretations may take effect retroactively and could materially and adversely affect us.

We may incur significant costs complying with various regulatory requirements, which could materially and adversely affect us.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these various requirements, we could incur governmental fines or private damage awards. In addition, existing requirements could change and future requirements might require us to make significant unanticipated expenditures, which could materially and adversely affect us.

Risks Related to Our Status as a REIT

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Our qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Moreover, new legislation, court decisions or administrative guidance, in each case possibly with retroactive effect, may make it more difficult or impossible for us to qualify as a REIT. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the REIT income and asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination and for which we will not obtain independent appraisals, and upon our ability to successfully manage the composition of our income and assets on an ongoing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

If we do not qualify as a REIT or if we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax and potentially state and local taxes, which would reduce our earnings and the amount of cash available for distribution to our shareholders.

We have been organized and we intend to operate in a manner that will enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year commencing at the time of this offering and ending December 31, 2011. Although we do not intend to request a ruling from the IRS as to our REIT qualification, we expect to receive, as a condition to the completion of this offering and our formation transactions, an opinion of Hogan Lovells US LLP with respect to our qualification as a REIT. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Hogan Lovells US LLP represents only the view of our counsel based on our counsel's review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income. The opinion is expressed as of the date issued. Hogan Lovells US LLP will have no obligation to advise us or our common shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Hogan Lovells US LLP and our qualification as a REIT depend on our satisfaction of the requirements described above under "—Qualifying as a REIT involves highly technical and complex provisions of the Code," the results of which will not be monitored by Hogan Lovells US LLP.

If we were to fail to qualify as a REIT in any taxable year and any available relief provisions do not apply, we would be subject to U.S. federal and state corporate income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Unless we were entitled to statutory relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Any determination that we do not qualify as a REIT would have a material adverse effect on our results of operations and could materially reduce the value of our common shares. Our additional tax liability could be substantial and would reduce our net earnings available for investment, debt service or distributions to shareholders. Furthermore, we would no longer be required to make any distributions to shareholders as a condition to REIT qualification and all of our distributions to shareholders would be taxable as ordinary C corporation dividends to the extent of our current and accumulated earnings and profits. This means that our shareholders currently taxed as individuals would be taxed on those dividends at capital gain rates (through 2012, in the absence of legislative action) and our corporate shareholders generally would be entitled to the dividends received deduction with respect to such dividends, subject in each case, to applicable limitations under the Code. Our failure to qualify as a REIT also could cause an event of default under loan documents governing our debt.

REIT distribution requirements could adversely affect our ability to execute our business plan or cause us to finance our needs during unfavorable market conditions.

We generally must distribute annually at least 90% of our REIT taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP. In addition, differences in timing between the recognition of taxable income and the actual receipt of cash may occur. As a result, we may find it difficult or impossible to meet distribution requirements in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions; (2) incur debt or issue additional equity on unfavorable terms; (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt; or (4) make a taxable distribution of our common shares as part of a distribution in which shareholders may elect to receive our common shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase our costs or dilute our equity. In addition, because the REIT distribution requirement prevents us from retaining earnings, we generally will be required to refinance debt at its maturity with additional debt or equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the market price of our common shares.

We may in the future choose to pay dividends in the form of our own common shares, in which case shareholders may be required to pay income taxes in excess of the cash dividends they receive.

We may seek in the future to distribute taxable dividends that are payable in cash and our common shares, at the election of each shareholder. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current

and accumulated earnings and profits for U.S. federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. shareholder sells the common shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common shares at the time of the sale. In addition, in such case, a U.S. shareholder could have a capital loss with respect to the common shares sold that could not be used to offset such dividend income. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common shares. In addition, such a taxable share dividend could be viewed as equivalent to a reduction in our cash distributions, and that factor, as well as the possibility that a significant number of our shareholders determine to sell our common shares in order to pay taxes owed on dividends, may put downward pressure on the market price of our common shares.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from "qualified dividends" payable to U.S. shareholders that are individuals, trusts and estates has been reduced by legislation to 15% (through 2012, after which time, in the absence of legislative action, they will be taxed at ordinary income rates). Dividends payable by REITs, however, generally are not eligible for the reduced rates and will continue to be subject to tax at rates applicable to ordinary income, which will be as high as 35% through 2012 (and in the absence of legislative action, as high as 39.6% starting in 2013). Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common shares.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes, including payroll taxes, taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, a 100% excise tax on any transactions with a TRS that are not conducted on an arm's-length basis, and state or local income, property and transfer taxes. In addition, we could, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, our TRSs will be subject to U.S. federal, state and local corporate income tax on their net taxable income, if any. To the extent that we conduct operations outside of the United States, our operations would subject us to applicable foreign taxes, as well. Any of these taxes would decrease cash available for the payment of our debt obligations and distributions to shareholders.

If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To qualify as a REIT, we must satisfy two gross income tests, pursuant to which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to the hotel leases with our TRSs, which we currently expect will constitute substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and must not be treated as service contracts, joint ventures or some other type of arrangement. We believe that the leases will be respected as true leases for federal income tax purposes. There can be no assurance, however, that the IRS will agree with this

characterization. If the leases were not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs and would likely lose our REIT status.

Rents paid to us by each of our TRSs may not be based on the net income or profits of any person, or they would not be treated as "rents from real property," in which case we would likely fail to qualify for taxation as a REIT. We receive "percentage rents" calculated based on the gross revenues of the hotels subject to leases with our TRSs, but not on net income or profits. In addition, if such rents are excessive, their deductibility may be challenged at the TRS level, and we could be subject to a 100% excise tax on "redetermined rent" or "redetermined deductions" to the extent rents exceed an arm's-length amount.

It has been reported that the IRS is conducting at least one audit of another lodging REIT, focusing on intercompany hotel leases between the REIT and its TRSs which purportedly reflect market terms. It has also been reported that the IRS has proposed transfer pricing adjustments in connection with this audit. We believe our leases have customary terms and rents and reflect normal business practices in this regard and do not provide for rent based on net income or profits, but there can be no assurance the IRS will agree.

If our TRSs fail to qualify as "taxable REIT subsidiaries" under the Code, we would fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" will not be qualifying income for purposes of the two gross income tests applicable to REITs. We expect to lease substantially all of our hotels to our TRSs, which will not be treated as "related party tenants" so long as they qualify as "taxable REIT subsidiaries" under the Code. To qualify as such, most significantly, a taxable REIT subsidiary cannot engage in the operation or management of hotels or health care properties. We believe that our TRSs will qualify to be treated as taxable REIT subsidiaries for federal income tax purposes. There can be no assurance, however, that the IRS will not challenge the status of a TRS for federal income tax purposes or that a court would not sustain such a challenge. If the IRS were successful in disqualifying any of our TRSs from treatment as a taxable REIT subsidiary, it is likely that we would fail to meet the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to meet either the asset tests or the gross income tests, we would likely lose our REIT status.

If any hotel management companies that we engage do not qualify as "eligible independent contractors," or if our hotels are not "qualified lodging facilities," we will fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours generally will not be qualifying income for purposes of the two gross income tests applicable to REITs. An exception is provided, however, for leases of "qualified lodging facilities" to a TRS so long as the hotels are managed by an "eligible independent contractor" and certain other requirements are satisfied. We intend to take advantage of this exception. We expect to lease all or substantially all of our hotels to TRS lessees, which are disregarded subsidiaries of the TRSs, and to engage hotel management companies that are intended to qualify as "eligible independent contractors." Among other requirements, in order to qualify as an eligible independent contractor, the hotel management company must not own, directly or through its shareholders, more than 35% of our outstanding shares, and no person or group of persons can own more than 35% of our outstanding shares and the shares (or ownership interest) of the hotel management company, taking into account certain ownership attribution rules and, with respect to our shares and the outstanding shares of any publicly traded hotel management company, only the shares owned by persons who own, directly or indirectly, more than 5% of a publicly traded class of shares. The ownership attribution rules that apply for purposes of these 35% thresholds are complex, and monitoring actual and constructive ownership of our shares by the hotel management companies and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded.

In addition, in order for a hotel management company to qualify as an eligible independent contractor, such company or a related person must be actively engaged in the trade or business of operating "qualified lodging facilities" (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a hotel management contract with a TRS or its TRS lessee. As of the date hereof, we believe the hotel management companies operate qualified lodging facilities for certain persons who are not related to us or our TRS. However, no assurances can be provided that this will continue to be the case or that any other hotel management companies that we may engage in the future will in fact comply with this requirement in the future. Failure to comply with this requirement would require us to find other managers for future contracts, and, if we hired a management company without knowledge of the failure, it could jeopardize our status as a REIT.

Finally, each hotel with respect to which our TRS lessees pay rent must be a "qualified lodging facility." A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. As of the date hereof, we believe that all of the hotels leased to our TRS lessees will be qualified lodging facilities. Although we intend to monitor future acquisitions and improvements of hotels, the REIT provisions of the Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied in all cases.

Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.

To qualify as a REIT, we must ensure that we meet the REIT gross income tests annually and that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio, or contribute to a taxable REIT subsidiary, otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders. In addition, we may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would otherwise be advantageous to us in order to satisfy the source of income or asset diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make, and, in certain cases, maintain ownership of, certain attractive investments.

If the IRS were to challenge successfully our operating partnership's status as a partnership for federal income tax purposes, we would cease to qualify as a REIT and suffer other adverse consequences.

Our operating partnership will be treated as a separate entity for federal income tax purposes, rather than as an entity that is disregarded as separate from us. We believe, and will take steps to structure any such ownership of OP units so that, our operating partnership will be treated as a partnership for federal income tax purposes, rather than as a corporation. As a partnership, it will not

be subject to federal income tax on its income. Instead, each of its partners, including our company, will be required to pay tax on such partner's allocable share of its income. No assurance can be provided, however, that the IRS will not challenge our operating partnership's status as a partnership for federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership as a corporation for federal income tax purposes, our company would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, accordingly, would cease to qualify as a REIT.

As a result of our formation transactions, our TRSs may be limited in using certain tax benefits.

If a corporation undergoes an "ownership change" within the meaning of Section 382 of the Code and the Treasury Regulations thereunder, such corporation's ability to use net operating losses, or NOLs, generated prior to the time of that ownership change may be limited. To the extent the affected corporation's ability to use NOLs is limited, such corporation's taxable income may increase. As of December 31, 2010, we had approximately $28.5 million of NOLs (all of which are attributable to our TRSs) which will begin to expire in 2026 if not utilized. In general, an ownership change occurs if one or more large stockholders, known as "5% stockholders," including groups of stockholders that may be aggregated and treated as a single 5% stockholder, increase their aggregate percentage interest in a corporation by more than 50% over their lowest ownership percentage during the preceding three-year period. We believe that the formation transactions will cause an ownership change within the meaning of Section 382 of the Code with respect to the TRSs of the REITs of Funds II and III. Accordingly, to the extent such TRSs have taxable income in future years, their ability to use NOLs incurred prior to our formation transactions in future years will be limited, and they may have greater taxable income as a result of such limitation.

Risks Related to this Offering

Our cash available for distribution to shareholders may not be sufficient to pay distributions at expected or required levels, and we may need to borrow funds or rely on other external sources in order to make such distributions, or we may not be able to make such distributions at all, which could cause the market price of our common shares to decline significantly.

We intend to pay regular quarterly distributions to holders of our common shares. We will establish our initial distribution rate based upon our estimate of the annualized cash flow that will be available for distributions after this offering. All distributions will be made at the discretion of our board of trustees and will depend on our historical and projected results of operations, EBITDA, FFO, liquidity and financial condition, REIT qualification, debt service requirements, capital expenditures and operating expenses, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of trustees may deem relevant from time to time. No assurance can be given that our projections will prove accurate or that any level of distributions or particular yield will be made or sustained. We may not be able to make distributions in the future or may need to fund such distributions through borrowings or other external financing sources, which may be available only at commercially unattractive terms, if at all. Any of the foregoing could cause the market price of our common shares to decline significantly.

Future issuances of debt securities, which would rank senior to our common shares upon our liquidation, and future issuances of equity securities (including OP units), which would dilute the holdings of our existing common shareholders and may be senior to our common shares for the purposes of making distributions, periodically or upon liquidation, may negatively affect the market price of our common shares.

In the future, we may issue debt or equity securities or incur other borrowings. Upon our liquidation, holders of our debt securities and other loans and preferred shares will receive a distribution of our available assets before common shareholders. If we incur debt in the future, our future interest costs could increase, and adversely affect our liquidity, FFO and results of operations.

We are not required to offer any additional equity securities to existing common shareholders on a preemptive basis. Therefore, additional common share issuances, directly or through convertible or exchangeable securities (including OP units), warrants or options, will dilute the holdings of our existing common shareholders and such issuances or the perception of such issuances may reduce the market price of our common shares. Our preferred shares, if issued, would likely have a preference on distribution payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to make distributions to common shareholders. Because our decision to issue debt or equity securities or incur other borrowings in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common shareholders bear the risk that our future issuances of debt or equity securities or our incurrence of other borrowings will negatively affect the market price of our common shares.

Because we will issue a significant number of common shares and OP units in connection with our formation transactions, the recipients could attempt to sell a significant number of common shares in the future upon the expiration of any applicable lock-up agreements, which could have a material adverse effect on the market price of our common shares.

We cannot predict the effect, if any, of our future issuances of our common shares or OP units, or future resales of our common shares or OP units, or the perception of such issuances or resales, on the market price of our common shares. Any such future issuances or resales, or the perception that such issuances or resales might occur, could negatively affect the market price of our common shares and may also make it more difficult for us to sell equity or equity-related securities in the future at a time and upon terms that we deem appropriate.

Subject to applicable law, our board of trustees has the authority, without further shareholder approval, to issue additional common shares and preferred shares on the terms and for the consideration it deems appropriate.

Upon completion of this offering and our formation transactions, we will have common shares outstanding on a fully-diluted basis, including an aggregate of common shares and OP units issued in our formation transactions (including common shares and OP units issued to continuing investors that will not have a role in the management of our Company) and an aggregate of restricted shares granted to our trustees, executive officers and other employees under the RLJ Lodging Trust 2011 Equity Incentive Plan, or our equity incentive plan, or common shares outstanding on a fully-diluted basis if the underwriters' overallotment option is exercised in full. We, our executive officers, trustees and trustee nominees and substantially all of the existing investors in Fund II and Fund III have agreed not to sell or transfer any common shares or securities convertible into, exchangeable or exercisable for (including OP units) or repayable with, common shares, subject to certain exceptions, without first obtaining the written consent of the representatives, for 180 days (with respect to us, certain of our executive officers, our trustee nominees and substantially all of the existing investors in Fund II and Fund III) and one year (with respect to Messrs. Johnson, Baltimore and Bierkan) after the date of this prospectus. If the restrictions under the lock-up arrangements expire or are waived, the related common shares will be available for resale and such resales, or the perception of such resales, could negatively affect the market price for our common shares. Although approximately % of the aggregate number of common shares and OP units issued in our formation transactions will be subject to lock-up agreements, you should not rely upon such lock-up agreements to limit the number of common shares sold into the market.

In addition, we expect to grant parties who enter into lock-up arrangements in connection with our formation transactions registration rights with respect to an aggregate of common shares and OP units to be received by such parties in connection with our formation transactions. In addition to the restricted shares granted to our trustees, executive officers and other employees under our equity

incentive plan in connection with this offering, in the future we may issue common shares and securities convertible into, or exchangeable or exercisable for, our common shares under our equity incentive plan. We intend to file with the SEC a registration statement on Form S-8 covering the common shares issuable under our equity incentive plan. Common shares covered by such registration statement will be eligible for transfer or resale without restriction under the Securities Act of 1933, as amended, or the Securities Act, unless held by affiliates. We also may issue from time to time additional common shares or OP units in connection with hotel acquisitions and may grant additional registration rights in connection with such issuances, pursuant to which we would agree to register the resale of such securities under the Securities Act. The market price of our common shares may decline significantly upon the registration of additional common shares pursuant to registration rights granted in connection with our formation transactions or future issuances of equity in connection with hotel acquisitions.

There is currently no public market for our common shares and an active trading market for our common shares may not develop and be sustained following this offering.

There has not been any public market for our common shares prior to this offering. Although we have applied to list our common shares on the NYSE, we cannot assure you that an active trading market for our common shares will develop after this offering or, if one develops, that it will be sustained. In the absence of an active trading market, you may be unable to resell your common shares at the time and for the price you desire. In addition, the initial public offering price of our common shares will be determined by agreement among us and the underwriters, and we can provide no assurances that our common shares will not subsequently trade below the initial public offering price.

The trading volume and market price of our common shares may be volatile and could decline substantially following this offering.

Even if an active trading market develops and is sustained for our common shares, the market price of our common shares may be volatile. In addition, the trading volume in our common shares may fluctuate and cause significant price variations to occur. If the market price of our common shares declines significantly, you may be unable to resell your shares at or above the initial public offering price. We cannot assure you that the market price of our common shares will not fluctuate or decline significantly in the future, including as a result of factors unrelated to our operating performance or prospects. In particular, the market price of our common shares could be subject to wide fluctuations in response to a number of factors, including, among others, the following:

- actual or anticipated differences in our operating results, liquidity, or financial condition;
- changes in our revenues, EBITDA, FFO or earnings estimates;
- publication of research reports about us, our hotels or the lodging or overall real estate industry;
- additions and departures of key personnel;
- the performance and market valuations of other similar companies;
- the passage of legislation or other regulatory developments that adversely affect us or our industry;
- the realization of any of the other risk factors presented in this prospectus;
- speculation in the press or investment community;
- changes in accounting principles;
- terrorist acts; and
- general market and economic conditions, including factors unrelated to our operating performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their common shares. If the market price of our common shares is volatile and this type of litigation is brought against us, it could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on us.

Increases in market interest rates may reduce demand for our common shares and result in a decline in the market price of our common shares.

The market price of our common shares may be influenced by the distribution yield on our common shares (i.e., the amount of our annual distributions as a percentage of the market price of our common shares) relative to market interest rates. An increase in market interest rates, which are currently low compared to historical levels, may lead prospective purchasers of our common shares to expect a higher distribution yield, which we may not be able, or may choose not, to provide. Higher interest rates would also likely increase our borrowing costs and decrease our operating results and cash available for distribution. Thus, higher market interest rates could cause the market price of our common shares to decline.

You will experience immediate and substantial dilution from the purchase of common shares sold in this offering.

The initial public offering price of our common shares is substantially higher than what our net tangible book value per share will be immediately after this offering. Accordingly, purchasers of our common shares in this offering will incur immediate dilution of approximately $ in net tangible book value per share, based on the midpoint of the price range set forth on the cover page of this prospectus.

In addition to the underwriting discount to be received by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC, they may receive other benefits from this offering.

In addition to the underwriting discount to be received by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC, we expect that an affiliate of Wells Fargo Securities, LLC will act as administrative agent, affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC will act as co-lead arrangers, an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as syndication agent, and affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC (together with other financial institutions) will act as lenders under our three-year, $300 million unsecured revolving credit facility that we expect to enter into upon completion of this offering. This transaction creates a potential conflict of interest because Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC have an interest in the successful completion of this offering beyond the underwriting discount they will receive. See "Our Business and Properties—Our Indebtedness—Revolving Credit Facility."

An affiliate of Wells Fargo Securities, LLC, an underwriter in this offering, is a lender under seven outstanding loans, two of which will be repaid with a portion of the net proceeds of this offering. As such, this affiliate will receive a portion of the net proceeds of this offering that are used to repay such indebtedness. Further, an affiliate of Wells Fargo Securities, LLC is a minority investor in each of Fund II and Fund III, and it will receive an aggregate of common shares in connection with our formation transactions. See "Underwriting (Conflicts of Interest)—Conflicts of Interest."

The underwriters, including Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC, and/or their affiliates may engage in commercial and investment banking transactions with us and/or our affiliates in the ordinary course of their business. They expect to receive customary compensation and expense reimbursement for these commercial and investment banking transactions.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this 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, cash flows, EBITDA, FFO, results of operations, and plans and objectives. When we use the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, we intend to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking:

- use of the net proceeds of this offering;
- the state of the U.S. economy generally or in specific geographic regions in which we operate, and the effect of general economic conditions on the lodging industry in particular;
- market trends in our industry, interest rates, real estate values and the capital markets;
- our investment and growth strategies and, particularly, our ability to identify and complete hotel acquisitions;
- our branding or re-branding initiatives with respect to five of our initial hotels;
- our projected operating results and cash available for distribution;
- actions and initiatives of the U.S. government and changes to U.S. government policies and the execution and impact of these actions, initiatives and policies;
- our ability to manage our relationships with our management companies, as well as franchisors;
- the expected opening date of our hotel under renovation;
- our ability to obtain and maintain financing arrangements on attractive terms;
- changes in the value of our hotels;
- impact of and changes in governmental regulations, tax law and rates, accounting guidance and similar matters;
- our ability to satisfy the requirements for qualification as a REIT under the Code;
- changes in personnel and availability of qualified personnel;
- general volatility and liquidity of the market price of our common shares; and
- degree and nature of our competition.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future events, taking into account all information currently available to us. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these events and factors are described in this prospectus under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Our Business and Properties." If a change occurs, our business, financial condition, liquidity, cash flows and results of operations may vary materially from those expressed in or implied by our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict the occurrence of those matters or the manner in which they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We estimate that the net proceeds to us from our sale of common shares in this offering will be approximately $ million, or $ million if the underwriters exercise their overallotment option in full, after deducting the underwriting discount and other estimated offering expenses payable by us of approximately $ million, based on the midpoint of the price range set forth on the cover page of this prospectus. We will contribute the net proceeds of this offering to our operating partnership in exchange for OP units.

We intend to use substantially all of the net proceeds of this offering to repay approximately $ million of secured indebtedness and to pay approximately $ million in associated prepayment penalties (as described below). Any remaining net proceeds will be used for general business and working capital purposes.

If the underwriters exercise their overallotment option in full, we expect to use the additional net proceeds to us, which will be approximately $ million in the aggregate, for general business and working capital purposes, including potential future acquisitions.

Pending the permanent use of the net proceeds of this offering, we intend to invest the net proceeds in interest-bearing, short-term investment-grade securities, money-market accounts or other investments that are consistent with our intention to elect and qualify to be taxed as a REIT.

The following table sets forth information, as of December 31, 2010, with respect to the indebtedness that we intend to repay, in whole or in part, with the net proceeds of this offering:

Property	Amount to be Repaid(1) (in thousands)	Interest Rate	Effective Annual Interest Rate(2)	Maturity Date
Louisville Marriott Downtown	$ 72,244	L+1.75%	2.01%	June 2011
Multi-property loan (10 hotels)	92,000	L+1.60%	1.86%	July 2011
Embassy Suites Los Angeles-Downey (3)	23,967	L+2.50%	5.59%	Jan 2012(4)
Multi-property loan (13 hotels) (3)	186,392	L+4.00%	5.69%	Feb 2012(4)
Hyatt Summerfield Suites Portfolio—Senior (6 hotels)	7,575(5)	L+1.24%	4.57%	April 2012
Hyatt Summerfield Suites Portfolio—Mezzanine (6 hotels)	5,839(5)	L+2.75%	6.08%	April 2012
Hilton Garden Inn St. George	10,818	L+4.00%	5.50%	May 2012(6)
SpringHill Suites Bakersfield	9,975	L+4.00%	5.50%	May 2012(6)
SpringHill Suites Gainesville	12,350	L+4.00%	5.50%	May 2012(6)
Hampton Inn & Suites Clearwater/St. Petersburg Ulmerton Road, FL	10,334	L+4.00%	5.50%	May 2012(6)
Hampton Inn Garden City	22,934	L+4.00%	5.50%	May 2012(6)
Hampton Inn & Suites Las Vegas-Red Rock/Summerlin	11,078	L+4.00%	5.50%	May 2012(6)
Hampton Inn Ft. Walton Beach	11,355	L+4.00%	5.50%	May 2012(6)
Hilton Mystic	13,339	L+4.00%	5.50%	May 2012(6)
	$ 490,200			

(1) Amounts based on outstanding balances at December 31, 2010.

(2) Effective annual interest rate at December 31, 2010 gives effect to interest rate swaps and LIBOR floors, as applicable.

(3) An affiliate of Wells Fargo Securities, LLC, an underwriter in this offering, is a lender under these loans, each of which will be repaid with a portion of the net proceeds of this offering. As such, this affiliate will receive a portion of the net proceeds of this offering that are used to repay such indebtedness.

(4) Maturity date may be extended for one additional year at our option (subject to our prior satisfaction of certain conditions, including, among others, maintenance of a specified debt service coverage ratio and advance notice of the exercise of our option).

(5) Amount represents partial paydown. The Hyatt Summerfield Suites Portfolio is subject to senior and mezzanine loans, which as of December 31, 2010, had outstanding balances of $48 million and $37 million, respectively.

(6) Maturity date may be extended for up to two one-year periods at our option (subject to our prior satisfaction of certain conditions, including, among others, a principal pay down for the first extension, maintenance of a specified debt service coverage ratio for the second extension, and advance notice of the exercise of our option).

DISTRIBUTION POLICY

To satisfy the requirements to qualify as a REIT, and to avoid paying tax on our income, we intend to make regular quarterly distributions of all, or substantially all, of our REIT taxable income (excluding net capital gains) to our shareholders. We intend to make a pro rata distribution with respect to the period commencing upon completion of this offering and ending on , 2011, based on a distribution of $ per common share for a full quarter. On an annualized basis, this would be $ per common share, or an annualized distribution rate of approximately % based on an assumed initial public offering price of $ per common share, which is the midpoint of the price range set forth on the cover page of this prospectus. We estimate that this initial annual distribution rate will represent approximately % of estimated cash available for distribution to our common shareholders for the 12-month period ending December 31, 2011. We do not intend to reduce the annualized distribution rate per common share if the underwriters exercise their overallotment option; however, this could require us to borrow funds to make the distributions or to make the distributions from net offering proceeds. Our intended initial annual distribution rate has been established based on our estimate of cash available for distribution for the 12-month period ending December 31, 2011, which we have calculated based on adjustments to our pro forma net income for the 12-month period ended December 31, 2010 (after giving effect to this offering and our formation transactions). This estimate was based on our pro forma operating results and does not take into account our business and growth strategies, nor does it take into account any unanticipated expenditures we may have to make or any financings for such expenditures. In estimating our cash available for distribution for the 12-month period ending December 31, 2011, we have made certain assumptions as reflected in the table and footnotes below.

Our estimate of cash available for distribution does not include the effect of any changes in our working capital resulting from changes in our working capital accounts. Our estimate also does not reflect the amount of cash to be used for investing activities for acquisition and other activities, other than recurring capital expenditures. It also does not reflect the amount of cash estimated to be used for financing activities, other than scheduled loan principal payments on mortgage and other indebtedness that will be outstanding upon completion of this offering. Any such investing and/or financing activities may have a material adverse effect on our estimate of cash available for distribution. Because we have made the assumptions set forth above in estimating cash available for distribution, we do not intend this estimate to be a projection or forecast of our actual results of operations, EBITDA, FFO, liquidity or financial condition and have estimated cash available for distribution for the sole purpose of determining our estimated initial annual distribution amount. Our estimate of cash available for distribution should not be considered as an alternative to cash flow from operating activities (computed in accordance with GAAP) or as an indicator of our liquidity or our ability to make distributions. In addition, the methodology upon which we made the adjustments described below is not necessarily intended to be a basis for determining future distributions.

We intend to maintain our initial distribution rate for the 12-month period following completion of this offering unless our results of operations, EBITDA, FFO, liquidity, cash flows, financial condition or prospects, economic conditions or other factors differ materially from the assumptions used in projecting our initial distribution rate. We believe that our estimate of cash available for distribution constitutes a reasonable basis for setting the initial distribution rate, as substantially all of the hotels in our initial portfolio have been in operation for a significant period of time, and our estimate does not give effect to the internal growth we expect to generate if the lodging industry continues to recover. However, we cannot assure you that our estimate will prove accurate, and actual distributions may therefore be significantly below the expected distributions. Our actual results of operations will be affected by a number of factors, including the revenue received from our hotels, performance of our property managers, our operating expenses, interest expense (including the effect of variable rate debt), and unanticipated capital expenditures. We may, from time to time, be required, or elect, to borrow

under our anticipated three-year, $300 million unsecured revolving credit facility or otherwise to pay distributions.

We cannot assure you that our estimated distributions will be made or sustained or that our board of trustees will not change our distribution policy in the future. Any distributions will be at the sole discretion of our board of trustees, and their form, timing and amount, if any, will depend upon a number of factors, including our actual and projected results of operations, EBITDA, FFO, liquidity, cash flows and financial condition, the revenue we actually receive from our properties, our operating expenses, our debt service requirements, our capital expenditures, prohibitions and other limitations under our financing arrangements, our REIT taxable income, the annual REIT distribution requirements, applicable law and such other factors as our board of trustees deems relevant. For more information regarding risk factors that could materially and adversely affect us, please see "Risk Factors." If our operations do not generate sufficient cash flow to enable us to pay our intended or required distributions, we may be required either to fund distributions from working capital, borrow or raise equity or to reduce such distributions. In addition, our charter allows us to issue preferred shares that could have a preference on distributions. We currently have no intention to issue any preferred shares, but if we do, the distribution preference on the preferred shares could limit our ability to make distributions to the holders of our common shares. We also may elect to pay all or a portion of any distribution in the form of a taxable distribution of our common shares.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to a taxable U.S. shareholder under current U.S. federal income tax law to the extent those distributions do not exceed the shareholder's adjusted tax basis in his or her common shares, but rather will reduce the adjusted basis of the shares. In that case, the gain (or loss) recognized on the sale of those shares or upon our liquidation will be increased (or decreased) accordingly. To the extent those distributions exceed a taxable U.S. shareholder's adjusted tax basis in his or her shares, they generally will be treated as a gain realized from the taxable disposition of those shares. The percentage of distributions to our shareholders that exceeds our current and accumulated earnings and profits may vary substantially from year to year. For a more complete discussion of the tax treatment of distributions to holders of our common shares, see "Material U.S. Federal Income Tax Considerations."

U.S. federal income tax law requires that a REIT distribute annually at least 90% of its REIT taxable income, excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its REIT taxable income, including capital gains. For more information, please see "Material U.S. Federal Income Tax Considerations." We anticipate that our estimated cash available for distribution will exceed the annual distribution requirements applicable to REITs and the amount necessary to avoid the payment of tax on undistributed income. However, under some circumstances, we may be required to make distributions in excess of cash available for distribution in order to meet these distribution requirements and we may need to borrow funds to make certain distributions.

The following table sets forth calculations relating to the intended initial distribution based on our pro forma financial data, and we cannot assure you that the intended initial distribution will be made or sustained. The calculations are being made solely for the purpose of illustrating the initial distribution and are not necessarily intended to be a basis for determining future distributions. The calculations include the following material assumptions:

- income and cash flows from operations for the twelve months ending December 31, 2011 will be substantially the same as the income and cash flows from operations for the twelve months ended December 31, 2010, with the exception of additional corporate expenses not permitted to be included as a pro forma adjustment for the twelve months ended December 31, 2010;

- cash flows used in investing activities for the twelve months ending December 31, 2011 will be the same as our predecessor's required capital expenditure reserve contributions for the year ended December 31, 2010; and

- cash flows used in financing activities will be the contractually committed amounts for the twelve months ending December 31, 2011.

These calculations do not assume any changes to our operations or any acquisitions or dispositions (or any transaction and pursuit costs related thereto) other than recurring capital expenditures, which would affect our cash flows, or changes in our outstanding common shares. We cannot assure you that our actual results will be as indicated in the calculations below. All dollar amounts are in thousands.

Pro forma net income for the year ended December 31, 2010	$	
Add: Depreciation and amortization		
Add: Amortization of deferred financing costs(1)		
Add: Transaction and pursuit costs(2)		
Add: Amortization of restricted shares(3)		
Estimated cash flows from operating activities for the twelve months ending December 31, 2011		
Estimated cash flows used in investing activities—required capital expenditure reserve contributions(4)		
Estimated cash flows used in financing activities—scheduled principal payments on debt payable(5)		
Estimated cash available for distribution for the twelve months ending December 31, 2011	$	
Intended initial distribution(6)	$	
Ratio of intended initial distribution to estimated cash available for distribution		%

(1) Represents a non-cash item recorded as an operating expense.

(2) Represents costs incurred in 2010 in connection with transactions that were not consummated.

(3) Represents non-cash compensation expense recorded as a general and administrative expense.

(4) Estimated amount includes the amount of reserves required to be funded in 2011 pursuant to management, franchise and loan agreements, which range from 2.0% to 5.0% of the 2010 revenues of each hotel.

(5) Estimated amount based on pro forma indebtedness to be outstanding upon completion of this offering. This amount includes $140.0 million of indebtedness maturing in 2011. We have the option to extend this indebtedness for two six-month periods, subject to our satisfaction of certain conditions, including compliance with specified financial covenants.

(6) Represents the aggregate amount of the intended annual distribution multiplied by the common shares and OP units that will be outstanding upon completion of this offering. Excludes the common shares that may be issued by us upon exercise of the underwriters' overallotment option.

CAPITALIZATION

The following table sets forth the historical capitalization of our predecessor at December 31, 2010, and our pro forma consolidated capitalization at December 31, 2010, as adjusted to give effect to this offering and our formation transactions (including the application of the net proceeds of this offering as described in "Use of Proceeds"). You should read this table together with "Use of Proceeds," "Selected Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our predecessor's consolidated historical and our pro forma financial statements and notes thereto included elsewhere in this prospectus.

	At December 31, 2010	
	Historical	Pro Forma(1)
	(in thousands, except per share data)	
Mortgage loans	$ 1,747,077	$
Term loan	—	
Equity:		
Common shares, par value $0.01 per share; 100,000 shares authorized, 1,000 shares issued and outstanding, historical; and 450,000,000 shares authorized, shares issued and outstanding, on a pro forma basis(3)	—	(4)
Preferred shares, par value $0.01 per share; 10,000 shares authorized and 0 shares issued and outstanding, historical; and 50,000,000 shares authorized and 0 shares issued and outstanding, on a pro forma basis	—	—
Additional paid-in capital	—	(4)
Owners' equity:		
Controlling owners' equity	1,216,110	
Noncontrolling interest(2)	7,623	
Noncontrolling partners' interest	—	(5)
Total equity	1,223,733	
Total capitalization	$ 2,970,810	$

(1) We also expect to enter into a three-year, $300 million unsecured revolving credit facility, which we expect will be undrawn upon completion of this offering. See "Our Business and Properties—Our Indebtedness—Revolving Credit Facility."

(2) On December 23, 2010, we acquired the Doubletree Metropolitan Hotel New York City through a joint venture with an unrelated third party. We have a 95% economic interest in this joint venture.

(3) The outstanding common shares on a pro forma basis include (a) common shares to be issued in connection with our formation transactions, (b) common shares to be sold in this offering and (c) restricted shares to be granted to our our trustees, executive officers and other employees upon completion of this offering pursuant to our equity incentive plan, but excludes (i) common shares issuable upon the exercise of the underwriters' overallotment option in full and (ii) common shares reserved for future issuance under our equity incentive plan.

(4) This dollar amount assumes that of our common shares will be sold in this offering and will increase or decrease depending upon whether such common shares are sold above or below $ per share (the midpoint of the price range set forth on the cover page of this prospectus).

(5) The noncontrolling partners' interest reflects OP units to be issued in our formation transactions, at a per unit value equal to the midpoint of the price range of our common shares set forth on the cover page of this prospectus, which value will change depending upon whether our common shares are sold in this offering above or below such midpoint.

DILUTION

Purchasers of our common shares offered by this prospectus will experience an immediate and substantial dilution of the net tangible book value per common share from the assumed initial public offering price based on the midpoint of the price range set forth on the cover page of this prospectus of $ per share. As of December 31, 2010, our predecessor had a net tangible book value of approximately $ million, or $ per common share held by continuing investors. After giving effect to the sale of our common shares in this offering and the completion of our formation transactions (including the application of the net proceeds of this offering), the pro forma net tangible book value at December 31, 2010 attributable to common shareholders would have been $ million, or $ per common share, assuming the exchange of the OP units to be issued in our formation transactions for common shares on a one-for-one basis. This amount represents an immediate increase in net tangible book value of $ per share to our continuing investors and an immediate dilution in pro forma net tangible book value of $ per share to investors in this offering. The following table illustrates this per share dilution.

Assumed initial public offering price per share based on the midpoint of the price range set forth on the cover page of this prospectus	$
Net tangible book value per share at December 31, 2010, before this offering and our formation transactions(1)	
Net increase in pro forma net tangible book value per share attributable to this offering and our formation transactions	
Pro forma net tangible book value per share after this offering and our formation transactions(2)	
Dilution in pro forma net tangible book value per share to investors in this offering(3)	$

(1) "Net tangible book value" is defined as total shareholders' equity less intangible assets. Net tangible book value per common share at December 31, 2010 before this offering and our formation transactions was determined by dividing the net tangible book value of our predecessor at December 31, 2010 by the number of our common shares held by continuing investors after this offering.

(2) The pro forma net tangible book value per share after this offering and our formation transactions was determined by dividing net tangible book value of approximately $ million by common shares and OP units to be outstanding after this offering (assuming the exchange of the OP units to be issued in our formation transactions for our common shares on a one-for-one basis), which amount excludes the common shares that may be issued by us upon exercise of the underwriters' overallotment option, and of our common shares available for issuance in the future under our equity incentive plan.

(3) Dilution is determined by subtracting pro forma net tangible book value per common share after giving effect to this offering and our formation transactions from the assumed initial public offering price paid by a new investor for our common shares.

Assuming the underwriters' over-allotment option is exercised in full, our net tangible book value as of December 31, 2010 would have been $ million, or $ per common share. This represents an immediate dilution in pro forma net tangible book value of $ per common share to investors in this offering (assuming the exchange of the OP units to be issued in our formation transactions for our common shares on a one-for-one basis).

Differences Between New Investors and Continuing Investors in Number of Shares and Amount Paid

The table below summarizes, as of December 31, 2010, on a pro forma basis after giving effect to our formation transactions and this offering, the differences between the number of common shares and OP units to be received by the continuing investors in our formation transactions and the new investors purchasing shares in this offering, the total consideration paid and the average price per common share or OP unit paid by the continuing investors in our formation transactions and paid in cash by the new investors purchasing shares in this offering (based on the pro forma net tangible book value attributable to those continuing investors receiving common shares and OP units in our formation transactions).

	Shares / OP Units Issued/Granted		Pro Forma Net Tangible Book Value of Contribution / Cash(1)		Average Price Per Common Share / OP Unit
($ in thousands, except per share data)	Number	Percentage	Amount	Percentage	
Continuing investors(2)		%	$	%	$
New investors					$ (3)
Total		100.0%	$	100.0%	

(1) Represents pro forma net tangible book value as of December 31, 2010 of the initial hotels on a pro forma basis after giving effect to this offering and our formation transactions (but prior to deducting the estimated costs of this offering).

(2) Includes common shares to be issued in connection with our formation transactions, OP units to be issued in connection with our formation transactions, and an aggregate of common shares to be granted to certain of our trustees, trustee nominees, executive officers and employees concurrently with the completion of this offering.

(3) Based on the midpoint of the price range set forth on the cover page of this prospectus.

SELECTED FINANCIAL AND OPERATING DATA

You should read the following selected historical and pro forma combined financial and operating data, together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical and pro forma combined consolidated financial statements and related notes included elsewhere in this prospectus.

We present herein certain combined consolidated historical financial data for our predecessor, which is not a legal entity, but rather a combination of the real estate hospitality assets, liabilities and operations of Fund II and Fund III and the assets, liabilities and operations of RLJ Development. The historical combined consolidated financial data for our predecessor is not necessarily indicative of our results of operations, cash flows or financial position following the completion of this offering and our formation transactions.

We have not presented our historical financial information because we have not had any corporate activity since our formation other than the issuance of common shares in connection with our initial capitalization and activity in connection with this offering and our formation transactions. Therefore, we do not believe that a discussion of our historical results would be meaningful.

The historical combined consolidated balance sheet information as of December 31, 2010 and 2009 of our predecessor and the combined consolidated statements of operations information for each of the years ended December 31, 2010, 2009 and 2008 of our predecessor have been derived from the audited historical combined consolidated financial statements included elsewhere in this prospectus.

The historical combined consolidated balance sheet information as of December 31, 2008 and 2007 of our predecessor and the combined consolidated statement of operations information for the year ended December 31, 2007 of our predecessor have been derived from the audited historical combined consolidated financial statements of our predecessor that are not included in this prospectus.

The selected historical financial information as of December 31, 2006, and for the year ended December 31, 2006 has been derived from the unaudited financial statements of our predecessor that are not included in this prospectus.

Our summary unaudited condensed pro forma combined consolidated financial and operating data as of and for the year ended December 31, 2010 assumes (1) the common shares to be sold in this offering are sold at the midpoint of the price range set forth on the cover page of this prospectus, and (2) the completion of our formation transactions as of January 1, 2010 for the operating data and as of December 31, 2010 for the balance sheet data. Our pro forma financial information is not necessarily indicative of what our actual financial position and results of operations would have been as of the date and for the periods indicated, nor does it purport to represent our future financial position or results of operations.

	Year Ended December 31,					
	Pro Forma Combined Consolidated	Historical Combined Consolidated				
	2010	2010	2009	2008	2007	2006
	(Unaudited)	(In thousands, except share, per share and property data)				(Unaudited)
Statement of Operations Data						
Room revenue	$ 608,266	$ 466,608	$ 408,667	$ 463,015	$ 395,939	$ 171,213
Other hotel revenue	100,298	78,960	73,821	88,804	79,558	33,997
Total revenue	708,564	545,568	482,488	551,819	475,497	205,210
Expenses:						
Room expense	137,980	103,333	90,663	97,407	84,414	36,006
Other hotel expense	298,631	231,237	210,810	235,391	202,788	86,948
Total hotel operating expense	436,611	334,570	301,473	332,798	287,202	122,954
Property tax, ground rent and insurance	45,781	34,868	35,667	34,110	30,556	10,924
Depreciation and amortization	119,316	100,793	96,154	84,390	59,651	23,244
Impairment loss	—	—	98,372	21,472	—	—
General and administrative	19,539	19,599	18,215	18,791	9,790	5,806
Transaction, pursuit and organization costs	1,447	14,345	8,665	2,100	500	675
Total operating expenses	622,694	504,175	558,546	493,661	387,699	163,603
Operating income (loss)	85,870	41,393	(76,058)	58,158	87,798	41,607
Interest and other income	3,985	3,986	1,579	2,357	3,016	1,161
Interest expense	(83,301)	(89,195)	(92,175)	(92,892)	(77,440)	(35,225)
Income (loss) before provision for income tax (expense) benefit	6,554	(43,816)	(166,654)	(32,377)	13,374	7,543
Income tax (expense) benefit	(1,608)	(945)	(1,801)	945	(1,317)	(658)
Income (loss) from continuing operations	4,946	(44,761)	(168,455)	(31,432)	12,057	6,885
Less: Net income (loss) attributable to the noncontrolling interest	8	(213)	—	—	—	—
Distributions to preferred shareholders	—	(62)	(62)	(61)	(31)	(6)
Net income (loss) available to owners	$ 4,938	$ (44,610)	$ (168,517)	$ (31,493)	$ 12,026	$ 6,879
Balance Sheet Data (at period end):						
Cash and cash equivalents	$ 275,952	$ 267,454	$ 151,382	$ 156,181	$ 83,897	$ 63,290
Investment in hotels, net	2,798,342	2,626,690	1,877,583	1,905,653	1,801,189	1,404,900
Total assets	3,209,074	3,045,824	2,202,865	2,213,108	2,032,470	1,704,618
Total debt	1,338,877	1,747,077	1,598,991	1,448,872	1,340,574	1,009,680
Total liabilities	1,409,045	1,822,091	1,717,118	1,592,376	1,470,251	1,213,745
Total owners' equity	1,800,029	1,223,733	485,747	620,732	562,219	490,873
Total liabilities and owners' equity	3,209,074	3,045,824	2,202,865	2,213,108	2,032,470	1,704,618
Per Share Data:						
Pro forma basic earnings per share						
Pro forma diluted earnings per share						
Pro forma weighted average shares outstanding—basic						
Pro forma weighted average shares outstanding—diluted						
Other Data:						
Number of properties at period end(1)	140	132	117	115	106	88
Pro forma Adjusted EBITDA	$ 207,270					
Pro forma Adjusted FFO	125,404					
Cash flows from:						
Operating activities		$ 63,663	$ 28,852	$ 76,978	$ 93,999	$ 43,752
Investing activities		(786,193)	(198,025)	(130,400)	(204,795)	(1,208,658)
Financing activities		838,602	164,374	125,706	131,403	1,217,569

(1) The historical combined consolidated number of properties includes our initial hotels and the New York LaGuardia Airport Marriott. The pro forma combined consolidated number of properties excludes the New York LaGuardia Airport Marriott, which is expected to be transferred to a third party no later than September 14, 2011.

	Pro Forma Year Ended December 31, 2010 (In thousands)
Reconciliation of FFO(1), Adjusted FFO(1), EBITDA(2) and Adjusted EBITDA(2) to Net Income	
Net income available to owners	$ 4,938
Add:	
Depreciation and amortization(3)	119,019
FFO	123,957
Add:	
Transaction and pursuit costs	1,447
Adjusted FFO	$ 125,404
Net income available to owners	$ 4,938
Add (deduct):	
Interest expense(4)	82,656
Interest and other income(5)	(2,398)
Income tax expense	1,608
Depreciation and amortization(3)	119,019
EBITDA	205,823
Add:	
Transaction and pursuit costs	1,447
Adjusted EBITDA	$ 207,270

(1) We calculate FFO in accordance with standards established by NAREIT, which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary and the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures.

We further adjust FFO for certain additional items that are not added to net income in NAREIT's definition of FFO, such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance at our hotels. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

(2) EBITDA is defined as net income or loss excluding: (a) interest expense; (b) provision for income taxes, including income taxes applicable to sale of assets; and (c) depreciation and amortization (including amortization of non-cash share-based compensation). We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and certain non-cash items (primarily depreciation and amortization) from our operating results.

We further adjust EBITDA for certain items such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activity, do not relate to the operating performance at our hotels. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs.

(3) Excludes amounts attributable to noncontrolling interest of $297.

(4) Excludes amounts attributable to noncontrolling interest of $645.

(5) Excludes contractual interest income of $1,587 associated with two owned mortgage loans collateralized by hotels.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the "Selected Financial and Operating Data," the historical combined consolidated financial statements and related notes of our predecessor, "Risk Factors," and "Our Business and Properties" included elsewhere in this prospectus. Where appropriate, the following discussion includes the effects of this offering and our formation transactions on a pro forma basis. These effects are reflected in our pro forma combined consolidated financial statements located elsewhere in this prospectus. As used in this section, unless the context otherwise requires, "we," "us," "our" and "our company" mean our predecessor for the periods presented and RLJ Lodging Trust and its consolidated subsidiaries upon completion of this offering and our formation transactions.

Overview

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. Upon completion of this offering and our formation transactions, we will own 140 hotels in 19 states and the District of Columbia comprising over 20,400 rooms. We will be one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our initial hotels are concentrated in urban and dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry.

Our strategy is to invest primarily in premium-branded, focused-service and compact full-service hotels. Focused-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. We believe premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows.

We believe that the current market environment presents attractive opportunities for us to acquire additional hotels with significant upside potential that are compatible with our investment strategy. We also believe that current lodging market fundamentals provide significant opportunities for RevPAR and EBITDA growth at our initial hotels. We believe that our senior management team's experience, extensive industry relationships and asset management expertise, coupled with our expected access to capital, will enable us to compete effectively for acquisition opportunities and help us generate strong internal and external growth.

Our Customers

Substantially all of our initial hotels consist of focused-service and compact full-service hotels. As a result of this property profile, the majority of our customers are transient in nature. Transient business typically represents individual business or leisure travelers. The majority of our initial hotels are located in the business districts and suburban markets of major metropolitan areas. Accordingly, business travelers represent the majority of the transient demand at our initial hotels. As a result, macroeconomic factors impacting business travel have a greater effect on our business than factors impacting leisure travel.

Group business is typically defined as a minimum of 10 guestrooms booked together as part of the same piece of business. Group business may or may not use the meeting space at any given hotel. Given the limited meeting space at the majority of our initial hotels, this group of business represents a smaller component of our customer base.

A number of our initial hotels are affiliated with brands marketed toward extended-stay customers. Extended-stay customers are generally defined as those staying five nights or longer. Reasons for extended-stays may include, but are not limited to, training and/or special project business, relocation, litigation and insurance claims.

Our Revenues and Expenses

Our revenue is derived from hotel operations, including the sale of rooms, food and beverage revenue and other operating department revenue, which consist of telephone, parking and other guest services.

Our operating costs and expenses consist of the costs to provide hotel services, including room expense, food and beverage expense, management fees and other hotel expenses. Room expense includes housekeeping, reservation systems, room supplies, laundry services and front desk costs. Food and beverage expense primarily includes food, beverage and associated labor costs. Other hotel expenses include labor and other costs associated with the other operating department revenue, as well as labor and other costs associated with administrative departments, franchise fees, sales and marketing, repairs and maintenance and utility costs. Our initial hotels are managed by independent, third-party management companies under long-term agreements under which the management companies typically earn base and incentive management fees based on the levels of revenues and profitability of each individual hotel. We generally receive a cash distribution from the hotel management companies on a monthly basis, which reflects hotel-level sales less hotel-level operating expenses.

Key Indicators of Operating Performance

We use a variety of operating and other information to evaluate the operating performance of our business. These key indicators include financial information that is prepared in accordance with GAAP as well as other financial measures that are non-GAAP measures. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the operating performance of our individual hotels, groups of hotels and/or business as a whole. We also use these metrics to evaluate the hotels in our portfolio and potential acquisitions to determine each hotel's contribution to cash flow and its potential to provide attractive long-term total returns. These key indicators include:

- ***Occupancy***—Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of rooms available. Occupancy measures the utilization of our hotels' available capacity. We use occupancy to measure demand at a specific hotel or group of hotels in a given period. Additionally, occupancy levels help us determine achievable ADR levels.

- ***ADR***—ADR represents total hotel room revenues divided by total number of rooms sold in a given period. ADR measures average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. We use ADR to assess the pricing levels that we are able to generate, as changes in rates have a greater impact on operating margins and profitability than changes in occupancy.

- ***RevPAR***—RevPAR is the product of ADR and occupancy. RevPAR does not include non-room revenues such as food and beverage revenue or other operating department revenues. We use RevPAR to identify trend information with respect to room revenues from comparable properties and to evaluate hotel performance on a regional basis.

  RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than changes that are driven primarily by changes in ADR.

For example, an increase in occupancy at a hotel would lead to additional variable operating costs (including housekeeping services, utilities and room supplies) and could also result in increased other operating department revenue and expense. Changes in ADR typically have a greater impact on operating margins and profitability as they do not have a substantial effect on variable operating costs.

Occupancy, ADR and RevPAR are commonly used measures within the lodging industry to evaluate operating performance. RevPAR is an important statistic for monitoring operating performance at the individual hotel level and across our entire business. We evaluate individual hotel RevPAR performance on an absolute basis with comparisons to budget and prior periods, as well as on a regional and company-wide basis. ADR and RevPAR include only room revenue. Room revenue comprised approximately 85.5% of our total revenue for the year ended December 31, 2010 and is dictated by demand (as measured by occupancy), pricing (as measured by ADR) and our available supply of hotel rooms.

Another commonly used measure in the lodging industry is the RevPAR penetration index, which measures a hotel's RevPAR in relation to the average RevPAR of that hotel's competitive set. Like other lodging companies, we use the RevPAR penetration index as an indicator of a hotel's market share in relation to its competitive set. However, the RevPAR penetration index for a particular hotel is not necessarily reflective of that hotel's relative share of any particular lodging market. The RevPAR penetration index for a particular hotel is calculated as the quotient of (1) the subject hotel's RevPAR divided by (2) the average RevPAR of the hotels in the subject hotel's competitive set, multiplied by 100. For example, if a hotel's RevPAR is $90 and the average RevPAR of the hotels in its competitive set is $90, the RevPAR penetration index would be 100, which would indicate that the subject hotel is capturing its fair market share in relation to its competitive set (i.e., the hotel's RevPAR is, on average, the same as its competitors). If, however, a hotel's RevPAR is $110 and the average RevPAR of the hotels in its competitive set is $90, the RevPAR penetration index of the subject hotel would be 122.2, which would indicate that the subject hotel maintains a RevPAR premium of approximately 22.2% (and, therefore, a market share premium) in relation to its competitive set.

One critical component in this calculation is the determination of a hotel's competitive set, which consists of a small group of hotels in the relevant market that we and the third-party hotel management company that manages the hotel believe are comparable for purposes of benchmarking the performance of such hotel. A hotel's competitive set is mutually agreed upon by us and the hotel's management company. Factors that we consider when establishing a competitive set include geographic proximity, brand affiliations and rate structure, as well as the level of service provided at the hotel. Competitive set determinations are highly subjective, however, and our methodology for determining a hotel's competitive set may differ materially from those used by other hotel owners and/or management companies.

For the year ended December 31, 2010, the portfolio wide RevPAR penetration index of our initial hotels was 115.7, which indicates that, on average, our initial hotels maintained a market share premium of approximately 15.7% in relation to its competitive set.

We also use FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as measures of the operating performance of our business. See "—Non-GAAP Financial Measures."

Principal Factors Affecting Our Results of Operations

The principal factors affecting our operating results include overall demand for hotel rooms compared to the supply of available hotel rooms, and the ability of our third-party management companies to increase or maintain revenues while controlling expenses.

- ***Demand***—The demand for lodging, especially business travel, generally fluctuates with the overall economy. Historically, periods of declining demand are followed by extended periods of relatively strong demand, which typically occurs during the growth phase of the lodging cycle.

  Operating performance of the U.S. lodging industry declined significantly from the peak in 2007 to 2009 due to challenging economic conditions created by declining GDP, high levels of unemployment, a significant decline in home prices and a reduction in the availability of credit. During the second half of 2010, the economic environment continued to show improvement, with a stabilizing unemployment rate and continued increases in reported corporate profits. According to the Bureau of Economic Analysis, U.S. GDP grew at approximately 2.6% and 2.8% for the third and fourth quarters of 2010, respectively, driven primarily by increased consumer demand. The continued economic improvement combined with increased business travel and limited supply growth provided positive momentum for U.S. lodging fundamentals. Fourth quarter lodging fundamentals showed favorable occupancy and ADR growth, surpassing earlier estimates of flat RevPAR levels for 2010. According to Colliers PKF Hospitality Research, in the fourth quarter of 2010, the U.S. lodging industry experienced an 9.1% RevPAR increase, which was driven by a 7.1% increase in occupancy and a 1.9% increase in ADR. We believe that the U.S. economy will continue to recover from the recent recession and generate positive GDP growth over the near term and that, as a result, lodging industry fundamentals will strengthen over that period.

- ***Supply***—The development of new hotels is driven largely by construction costs, the availability of financing and expected performance of existing hotels.

  We believe that growth in room supply is likely to remain below the historical average of 2.1% (as reported by Smith Travel Research) until lodging occupancy levels return to long-term historical averages and lenders ease restrictions on construction financing. With limited new supply, we expect attractive RevPAR growth as the U.S. economy continues to strengthen. In its March–May 2011 edition of *Hotel Horizons*, Colliers PKF Hospitality Research projected the following growth in RevPAR and supply through 2014:

Year	RevPAR Growth	Supply Growth
2011	7.1%	0.7%
2012	8.9%	0.6%
2013	9.3%	1.0%
2014	5.4%	2.0%

We expect that our ADR, occupancy and RevPAR performance will be impacted by macroeconomic factors such as regional and local employment growth, personal income and corporate earnings, office vacancy rates and business relocation decisions, airport and other business and leisure travel, new hotel construction and the pricing strategies of competitors. In addition, our ADR, occupancy and RevPAR performance are dependent on the continued success of the Marriott, Hilton and Hyatt brands.

- ***Revenue***—Substantially all of our revenue is derived from the operation of hotels. Specifically, our revenue is comprised of:

  - *Room revenue*—Occupancy and ADR are the major drivers of room revenue. Room revenue accounts for the substantial majority of our total revenue.

  - *Food and beverage revenue*—Occupancy and the type of customer staying at the hotel are the major drivers of food and beverage revenue (i.e., group business typically generates more food and beverage business through catering functions when compared to transient business, which may or may not utilize the hotel's food and beverage outlets).

- *Other operating department revenue*—Occupancy and the nature of the property are the main drivers of other ancillary revenue, such as telephone, parking and other guest services. Some hotels, due to the limited focus of the services offered and size or space limitations, may not have facilities that generate other operating department revenue.

- ***Hotel Operating Expenses***—The following presents the components of our hotel operating expenses:

  - *Room expense*—These costs include housekeeping wages and payroll taxes, reservation systems, room supplies, laundry services and front desk costs. Like room revenue, occupancy is the major driver of room expense and, therefore, room expense has a significant correlation to room revenue. These costs can increase based on increases in salaries and wages, as well as the level of service and amenities that are provided.

  - *Food and beverage expense*—These expenses primarily include food, beverage and labor costs. Occupancy and the type of customer staying at the hotel (i.e., catered functions generally are more profitable than restaurant, bar or other on-property food and beverage outlets) are the major drivers of food and beverage expense, which correlates closely with food and beverage revenue.

  - *Management fees*—Base management fees are computed as a percentage of gross revenue. Incentive management fees generally are paid when operating profits exceed certain threshold levels. See "Our Principal Agreements—Hotel Management Agreements."

  - *Other hotel expenses*—These expenses include labor and other costs associated with the other operating department revenues, as well as labor and other costs associated with administrative departments, franchise fees, sales and marketing, repairs and maintenance and utility costs.

Most categories of variable operating expenses, including labor costs such as housekeeping, fluctuate with changes in occupancy. Increases in occupancy are accompanied by increases in most categories of variable operating expenses, while increases in ADR typically only result in increases in limited categories of operating costs and expenses, such as franchise fees, management fees and credit card processing fee expenses which are based on hotel revenues. Thus, changes in ADR have a more significant impact on operating margins than changes in occupancy.

Critical Accounting Policies

Our discussion and analysis of the historical financial condition and results of operations of our predecessor is based on our predecessor's combined consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ significantly from these estimates and assumptions. We have provided a summary of our significant accounting policies in the notes to the historical combined consolidated financial statements of our predecessor included elsewhere in this prospectus. We have set forth below those accounting policies that we believe require material subjective or complex judgments and have the most significant impact on our financial condition and results of operations. We evaluate our estimates, assumptions and judgments on an ongoing basis, based on information that is then available to us, our experience and various matters that we believe are reasonable and appropriate for consideration under the circumstances.

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, building, furniture, fixtures and equipment and inventory. We record the purchase price among these asset classes based on their respective fair values. When we acquire hotels, we acquire them for use. Generally, we do not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through December 31, 2010 consist of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. In conjunction with the acquisition of a hotel, we typically negotiate new franchise and management agreements with the selected brand and manager.

Our investments in hotels are carried at cost and are depreciated using the straight-line method over estimated useful lives of 15 years for land improvements, 40 years for buildings and improvements and three to five years for furniture, fixtures and equipment. Intangible assets arising from favorable or unfavorable leases are amortized using the straight-line method over the term of the non-cancelable term of the agreement. Maintenance and repairs are expensed and major renewals or improvements are capitalized. Upon the sale or disposition of a fixed asset, the asset and related accumulated depreciation are removed from the accounts and the related gain or loss is included in operations.

For hotels that are classified as held for investment, we assess the carrying values of each hotel, whenever events or changes in circumstances indicate that the carrying amounts of these hotels may not be fully recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the hotel. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary.

The use of projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and economy in general and our strategic plans to manage the underlying hotels. However assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and our ultimate investment intent that occur subsequent to a current impairment analyses could impact these assumptions and result in future impairment charges of the hotels.

During the year ended December 31, 2009, as a result of the general economic recession and reduced demand for our hotel rooms and services resulting from an overall decline in travel demand, we assessed the recoverability of the carrying value for all of the hotels in our portfolio. This assessment resulted in our determining that 17 hotels had carrying values in excess of undiscounted cash flows and accordingly we recorded an impairment charge totaling $98.4 million for these 17 hotels. The impairment charge was calculated based on a comparison of each of the 17 hotels' current fair market values, as determined by utilizing appraisals from independent third party appraisers, to each hotel's carrying value. Assumptions utilized by the third-party appraisal firms in the completion of their discounted cash flow models included a discount rate range of 10.28%–14.25% based on market conditions as of December 31, 2009 and an estimated ten-year holding period.

During the year ended December 31, 2010, we determined that 17 of our hotels had potential indicators of impairment and accordingly evaluated the recoverability of the carrying value of these hotels using an undiscounted cash flow model updated to determine if further assessment for potential impairment was required for any of the hotels. All hotel carrying values were determined to be fully recoverable based on these assessments.

Revenue Recognition

Our revenue comprises hotel operating revenue, such as room revenue, food and beverage revenue and revenue from other hotel operating departments (such as telephone, parking and other guest services). These revenues are recorded net of any sales and occupancy taxes collected from guests. All rebates or discounts are recorded as a reduction in revenue, and there are no material contingent obligations with respect to rebates and discounts offered by the hotels. All revenues are recorded on an accrual basis as earned. Appropriate allowances are made for doubtful accounts and are recorded as bad debt expense. The allowances are calculated as a percentage of aged accounts receivable, based on individual hotel management company policy. Cash received prior to guest arrival is recorded as an advance from the guest and recognized as revenue at the time of occupancy.

Income Taxes

We intend to operate and be taxed as a REIT under the Code. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to our shareholders (which is computed without regard to the dividends paid deduction or net capital gain) and which does not necessarily equal net income as calculated in accordance with GAAP. As a REIT, we generally will not be subject to federal income tax to the extent we currently distribute our REIT taxable income to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate income tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which the qualification is lost unless the IRS grants us relief under certain statutory provisions. Such an event could materially and adversely affect our net income, FFO, liquidity, net cash available for distribution to shareholders and financial condition. However, we intend to organize and operate in such a manner as to qualify for treatment as a REIT.

Share-Based Compensation

Prior to the completion of this offering, we intend to adopt an equity incentive plan that provides for the grant of options to purchase our common shares and share awards (including restricted shares and restricted share units), share appreciation rights, performance shares, performance units and other equity-based awards, including long-term incentive plan units in our operating partnership, or LTIP units, or any combination of the foregoing. Equity-based compensation will be recognized as an expense in the financial statements over the vesting period and measured at the fair value of the award on the date of grant. The amount of the expense may be subject to adjustment in future periods depending on the specific characteristics of the equity-based award and the application of the accounting guidance.

Results of Operations

At December 31, 2010, 2009 and 2008, we owned 132, 117 and 115 hotels, respectively (excluding six hotels carried as discontinued operations in all periods presented). All hotels owned during these periods, excluding discontinued operations, have been included in our results of operations during those respective periods or since their date of acquisition. For purposes of this presentation, the New York LaGuardia Airport Marriott, which is expected to be transferred to a third party no later than September 14, 2011 is included in all financial and operating data presented, including RevPAR, ADR and occupancy rates.

Comparison of the Year Ended December 31, 2010 to the Year Ended December 31, 2009

Net loss from continuing operations for the year ended December 31, 2010 was $44.8 million compared to a net loss from continuing operations of $168.5 million for the year ended December 31, 2009, representing a decrease of $123.7 million. This improved performance was primarily due to a $63.1 million, or 13.1%, increase in total revenue (including $39.9 million arising from the net impact of acquisitions) and a decrease in impairment charges of $98.4 million, partially offset by a $33.1 million, or 11.0%, increase in operating expenses and an increase in transaction and pursuit costs of $5.7 million.

	For the Year Ended December 31,			
	2010	2009	$ Change	% Change
Hotel operating revenue				
Room revenue	$ 466,608	$ 408,667	$ 57,941	14.2%
Food and beverage revenue	64,475	61,327	3,148	5.1%
Other operating department revenue	14,485	12,494	1,991	15.9%
Total hotel operating revenue	545,568	482,488	63,080	
Other income	—	—	—	
Total revenue	**545,568**	**482,488**	**63,080**	**13.1%**
Expense				
Hotel operating expense				
Room	103,333	90,663	12,670	14.0%
Food and beverage	44,423	41,758	2,665	6.4%
Management fees	19,140	17,203	1,937	11.3%
Other hotel expenses	167,674	151,849	15,825	10.4%
Total hotel operating expense	334,570	301,473	33,097	11.0%
Depreciation	100,793	96,154	4,639	4.8%
Impairment loss	—	98,372	(98,372)	(100.0)%
Property tax, ground rent and insurance	34,868	35,667	(799)	(2.2)%
General and administrative	19,599	18,215	1,384	7.6%
Transaction and pursuit costs	14,345	8,665	5,680	65.6%
Total operating expense	504,175	558,546	(54,371)	(9.7)%
Operating income (loss)	41,393	(76,058)	117,451	(154.4)%
Other income	629	955	(326)	(34.1)%
Interest income	3,357	624	2,733	438.0%
Interest expense	(89,195)	(92,175)	2,980	(3.2)%
Loss from continuing operations before income taxes	(43,816)	(166,654)	122,838	(73.7)%
Income tax expense	(945)	(1,801)	856	(47.5)%
Loss from continuing operations	(44,761)	(168,455)	123,694	(73.4)%
Income from discontinued operations	22,145	457	21,688	4745.7%
Net loss	(22,616)	(167,998)	145,382	(86.5)%
Net loss attributable to noncontrolling interest	213	—	213	100.0%
Net loss attributable to us	(22,403)	(167,998)	145,595	(86.7)%
Distributions to preferred unitholders	(62)	(62)	—	0.0%
Net loss available to owners	**$ (22,465)**	**$ (168,060)**	**$ 145,595**	**(86.6)%**

Revenue

Total revenue increased $63.1 million, or 13.1%, to $545.6 million for the year ended December 31, 2010 from $482.5 million for the year ended December 31, 2009, reflecting improvement in U.S. lodging fundamentals. Comparability of the annual periods was impacted by an increase of $39.9 million in revenue arising from the net impact of acquisitions during the periods.

The following are the key hotel operating statistics for hotels owned at December 31, 2010 and 2009, respectively:

	For the Year Ended December 31,		
	2010	2009	% Change
Number of hotels (at end of period)	132	117	12.8%
Occupancy %	68.3%	63.8%	7.1%
ADR	$ 112.60	$ 111.18	1.3%
RevPAR	$ 76.91	$ 70.91	8.5%

Comparability of the annual periods is impacted by increases of 0.5%, $5.08 and $4.03 in occupancy, ADR and RevPAR, respectively, arising from the net impact of acquisitions during the periods. For properties owned for the entirety of both periods, RevPAR growth of 2.8% was driven by a 6.3% increase in occupancy offset by a 3.3% decline in ADR.

Room Revenue. Room revenue increased $57.9 million, or 14.2%, to $466.6 million for the year ended December 31, 2010 from $408.7 million for the year ended December 31, 2009. The increase in room revenue was primarily due to an 8.5% increase in RevPAR, driven by a 7.1% increase in occupancy and a 1.3% increase in ADR. Comparability of the annual periods is impacted by an increase of $35.7 million in room revenue arising from the net impact of acquisitions during the periods.

Food and Beverage Revenue. Food and beverage revenue increased $3.1 million, or 5.1%, to $64.5 million for the year ended December 31, 2010 from $61.3 million for the year ended December 31, 2009. However, comparability of the annual periods was impacted by an increase of $2.6 million in food and beverage revenue arising from the net impact of acquisitions during the periods.

Other Operating Department Revenue. Other operating department revenue, which includes revenue derived from ancillary sources, increased $2.0 million, or 15.9%, to $14.5 million for the year ended December 31, 2010 from $12.5 million for the year ended December 31, 2009. Comparability of the annual periods is impacted by an increase of $1.7 million in other operating department revenue arising from the net impact of acquisitions during the periods. The majority of the remaining increase was a result of portfolio-wide increase in parking revenue of $0.4 million, which was partially offset by continuing declines in telephone revenue of $0.3 million as guests reduced their usage of in-room telephone equipment.

Hotel Operating Expense

Hotel operating expense increased $33.1 million, or 11.0%, to $334.6 million for the year ended December 31, 2010 from $301.5 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $23.7 million in hotel operating expense arising from the net impact of acquisitions during the periods. The remaining increase was primarily attributable to increases in occupancy as a result of the improving economy.

Depreciation

Depreciation expense increased $4.6 million, or 4.8%, to $100.8 million for the year ended December 31, 2010 from $96.2 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by a $6.1 million increase in depreciation expense arising from the net impact of acquisitions during the periods and a $1.7 million increase in depreciation on building and furniture, fixtures and equipment for capital expenditures made during 2010. The partially offsetting decrease was primarily due to a reduction in fixed asset bases at certain hotels due to impairment charges recognized in prior years.

Impairment Loss

No impairment losses were recognized during 2010. During the year ended December 31, 2009, 17 of our hotels were deemed to have carrying values that were not fully recoverable based on changes in the capital markets and the overall decline in lodging demand, and, as a result, we recognized an impairment loss of $98.4 million.

Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense decreased $0.8 million, or 2.2%, to $34.9 million for the year ended December 31, 2010 from $35.7 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $3.4 million in property tax, ground rent and insurance expense arising from the net impact of acquisitions during the periods. Property tax, ground rent and insurance expense for the remainder of the portfolio decreased $4.2 million due to a combination of declines in assessed property values due to the recession and our efforts to aggressively challenge real estate tax assessments and manage our insurance premiums.

General and Administrative

General and administrative expense increased $1.4 million, or 7.6%, to $19.6 million for the year ended December 31, 2010 from $18.2 million for the year ended December 31, 2009. The majority of the increase in general and administrative expense is attributable to an increase in legal fees of $0.9 million, primarily related to our investment in loans and an increase in management advisory services of $0.5 million.

Transaction and Pursuit costs

Transaction and pursuit costs increased $5.7 million to $14.3 million for the year ended December 31, 2010 from $8.7 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $10.3 million in transaction costs arising from the net impact of acquisitions during the periods. There were 24 acquisitions in 2010 and the first quarter of 2011, which resulted in transaction costs of $13.2 million in 2010, compared to two acquisitions in 2009 resulting in transaction costs of $2.9 million. The period-over-period increase in transaction costs was partially offset by a net decrease of $4.6 million of costs associated with unsuccessful acquisition efforts during the periods. Unsuccessful acquisition costs totaled $1.2 million in 2010 and $5.8 million in 2009, with the 2009 charge arising primarily from a $5.6 million fee paid in 2009 in order to terminate an obligation to purchase two hotels under a purchase and sale agreement. The purchase and sale agreement was terminated due to an overall decline in the economy, which resulted in our deciding not to continue to pursue this acquisition opportunity.

Interest Income

Interest income increased $2.7 million to $3.4 million for the year ended December 31, 2010 from $0.6 million for the year ended December 31, 2009. This increase was primarily due to $3.1 million of interest income recognized for the year ended December 31, 2010 arising from our investment in loans that were acquired at the end of 2009. This was partially offset by a decrease in interest income earned on escrowed monies received in 2009 of $0.2 million.

Interest Expense

Interest expense decreased $3.0 million, or 3.2%, to $89.2 million for the year ended December 31, 2010 from $92.2 million for the year ended December 31, 2009. Comparability of the annual periods was impacted by an increase of $3.5 million in interest expense arising from the net impact of debt incurred related to acquisitions during the periods. The decrease was primarily due to the expiration of unfavorable interest rate hedges resulting in a decrease in hedge driven interest expense of $11.2 million and a $0.9 million decrease in amortization of deferred financing fees, partially offset by an increase in interest expense of $5.9 million from rising interest rates as well as higher interest rates on $311.1 million of debt obligations that were modified and extended.

Income Tax Expense

Income tax expense decreased $0.9 million, or 47.5%, to $0.9 million for the year ended December 31, 2010 from $1.8 million for the year ended December 31, 2009. Tax expense incurred for 2010 was less than 2009 due to expense incurred in 2009 for an immaterial out-of-period adjustment for previously unrecorded state taxes. As part of our structure, we own TRSs that are subject to federal and state income taxes. The TRSs' 2010 and 2009 income tax expense were calculated using an effective tax rate of 37.8% for both years.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

Net loss from continuing operations for the year ended December 31, 2009 was $168.5 million compared to a net loss from continuing operations of $31.4 million for the year ended December 31, 2008, representing a decline of $137.1 million. This decline was primarily due to a $69.3 million, or 12.6%, decrease in total revenue as a result of weakness in the U.S. lodging market caused by the

economic recession and an increase in impairment loss of $76.9 million arising from the write down of 17 hotels to fair value.

	For the Year Ended December 31,			
	2009	2008	$ Change	% Change
Hotel operating revenue				
Room revenue	$ 408,667	$ 463,015	$ (54,348)	(11.7)%
Food and beverage revenue	61,327	71,766	(10,439)	(14.5)%
Other operating department revenue	12,494	17,038	(4,544)	(26.7)%
Total revenue	**482,488**	**551,819**	**(69,331)**	**(12.6)%**
Expense				
Hotel operating expense				
Room	90,663	97,407	(6,744)	(6.9)%
Food and beverage	41,758	48,934	(7,176)	(14.7)%
Management fees	17,203	21,365	(4,162)	(19.5)%
Other hotel expenses	151,849	165,092	(13,243)	(8.0)%
Total hotel operating expense	301,473	332,798	(31,325)	(9.4)%
Depreciation	96,154	84,390	11,764	13.9%
Impairment loss	98,372	21,472	76,900	358.1%
Property tax, ground rent and insurance	35,667	34,110	1,557	4.6%
General and administrative	18,215	18,791	(576)	(3.1)%
Transaction and pursuit costs	8,665	1,955	6,710	343.2%
Organization costs	—	145	(145)	—
Total operating expense	558,546	493,661	64,885	13.1%
Operating (loss)/income	(76,058)	58,158	(134,216)	(230.8)%
Other income	955	745	210	28.2%
Interest income	624	1,612	(988)	(61.3)%
Interest expense	(92,175)	(92,892)	717	(0.8)%
Loss from continuing operations before income taxes	(166,654)	(32,377)	(134,277)	414.7%
Income tax (expense)/benefit	(1,801)	945	(2,746)	(290.6)%
Loss from continuing operations	(168,455)	(31,432)	(137,023)	435.9%
Income from discontinued operations	457	2,111	(1,654)	(78.4)%
Net loss	(167,998)	(29,321)	(138,677)	473.0%
Distributions to preferred unitholders	(62)	(61)	(1)	1.6%
Net loss available to owners	**$ (168,060)**	**$ (29,382)**	**$ (138,678)**	**472.0%**

Revenue

Total revenue declined $69.3 million, or 12.6%, to $482.5 million for the year ended December 31, 2009 from $551.8 million for the year ended December 31, 2008, reflecting the continued weakness in U.S. lodging fundamentals and impact of the economic recession in all of our markets. Comparability of the annual periods was impacted by an increase of $35.9 million in total revenue arising from the net impact of acquisitions during the periods. When excluding non-comparable hotels, total revenue from hotels owned for the duration of both periods declined $105.0 million. The continued decline in group bookings, as both businesses and associations cancelled non-essential meetings, adversely affected ADR and food and beverage revenue.

The following were the key hotel operating statistics for the hotels owned at December 31, 2009 and 2008, respectively:

	For the Year Ended December 31,		
	2009	2008	% Change
Number of Hotels (at end of period)	117	115	1.7%
Occupancy %	63.8%	68.3%	(6.6)%
ADR	$ 111.18	$ 125.34	(11.3)%
RevPAR	$ 70.91	$ 85.65	(17.2)%

Most of the decline in RevPAR reflected a number of negative trends within primary customer segments, including decreases in demand, length of stay, booking pace, and business travel, as well as declines in ADR reflecting discounted pricing.

Room Revenue. Room revenue decreased $54.3 million, or 11.7%, to $408.7 million for the year ended December 31, 2009 from $463.0 million for the year ended December 31, 2008. The decrease in room revenue was due to a 17.2% decline in RevPAR, driven by a 11.3% decrease in ADR and a 6.6% decrease in occupancy. Comparability of the annual periods was impacted by a $33.5 million increase in revenues arising from the net impact of acquisitions during the periods.

Food and Beverage Revenue. Food and beverage revenue decreased $10.4 million, or 14.5%, to $61.3 million for the year ended December 31, 2009 from $71.8 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $1.7 million in food and beverage revenues arising from the net impact of acquisitions during the periods. The primary driver of the decreases in food and beverage revenue for the remainder of the portfolio was an $8.2 million decline in event catering revenues at the hotels. The remaining $3.9 million decline in food and beverage revenue was the result of guests limiting their expenditures as a result of the recession.

Other Operating Department Revenue. Other operating department revenue, which includes revenue derived from ancillary sources, decreased $4.5 million, or 26.7%, to $12.5 million for the year ended December 31, 2009 from $17.0 million for the year ended December 31, 2008, primarily as a result of guests continuing to limit expenditures in all areas, including these ancillary sources. Comparability of the annual periods was impacted by an increase of $0.6 million in other operating department revenue arising from the net impact of acquisitions during the periods.

Hotel Operating Expense

Hotel operating expense decreased $31.3 million, or 9.4%, to $301.5 million for the year ended December 31, 2009 from $332.8 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $18.6 million in hotel operating expense arising from the net impact of acquisitions during the periods. Excluding the impact of acquisitions during the periods, hotel operating expense decreased $48.9 million primarily as a result of lower occupancy across our portfolio.

Depreciation

Depreciation expense increased $11.8 million, or 13.9%, to $96.2 million for the year ended December 31, 2009 from $84.4 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $7.2 million in depreciation expense arising from the net impact of acquisitions during the periods. The remaining increase was primarily due to depreciation on building and furniture, fixtures and equipment related to $17.2 million of capital expenditures made during 2009, partially offset by a reduction of the furniture, fixtures and equipment basis at certain hotels due to impairment charges of $21.5 million in 2008.

Impairment Loss

Impairment loss increased $76.9 million to $98.4 million for the year ended December 31, 2009 from $21.5 million for the year ended December 31, 2008. The increase was due to our determination that the carrying values for 17 of our hotels were not fully recoverable, which resulted in us recording impairment charges related to such hotels in 2009. At December 31, 2008, five of our hotels were deemed to have carrying values that were not fully recoverable. For both 2009 and 2008, the determination that carrying values for certain of our initial hotels were not fully recoverable was made based on changes in the capital markets and the overall decline in lodging demand.

Property Tax, Ground Rent and Insurance

Property tax, ground rent and insurance expense increased $1.5 million, or 4.6%, to $35.7 million for the year ended December 31, 2009 from $34.1 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $2.0 million in property tax, ground rent and insurance expense arising from the net impact of acquisitions during the periods. Property tax, ground rent and insurance expense for the remainder of the portfolio decreased $0.5 million mainly due to a combination of declines in assessed property values due to the recession and our efforts to aggressively challenge real estate tax assessments and manage our insurance premiums.

General and Administrative

General and administrative expense decreased $0.6 million, or 3.1%, to $18.2 million for the year ended December 31, 2009 from $18.8 million for the year ended December 31, 2008.

Transaction and Pursuit Costs

Transaction and pursuit costs increased $6.7 million to $8.7 million for the year ended December 31, 2009 from $2.0 million for the year ended December 31, 2008, primarily as a result of a $5.6 million fee paid in 2009 in order to terminate an obligation to purchase two hotels under a purchase and sale agreement. The purchase and sale agreement was terminated due to an overall decline in the economy, which resulted in our deciding not to continue to pursue this acquisition opportunity. This payment resulted in a year-over-year increase in costs associated with unsuccessful acquisition efforts of $4.6 million. Additionally, transaction costs increased $2.1 million year-over-year due to the size and complexity of the transactions that occurred during 2009 versus 2008.

Interest Income

Interest income decreased $1.0 million, or 61.3%, to $0.6 million for the year ended December 31, 2009 from $1.6 million for the year ended December 31, 2008. This decrease was primarily due to declines in interest rates on demand deposits.

Interest Expense

Interest expense decreased $0.7 million, or 0.8%, to $92.2 million for the year ended December 31, 2009 from $92.9 million for the year ended December 31, 2008. Comparability of the annual periods was impacted by an increase of $5.2 million in interest expense arising from the net impact of acquisitions during the periods. Excluding the impact of acquisitions during the periods, interest expense decreased $4.3 million. This $4.3 million decrease was primarily due to a decline in interest rates as a result of the downturn in the economy, which caused mortgage interest expense to decrease $4.1 million with the remaining reduction resulting from a decrease in average outstanding balances.

Income Tax Expense

Income tax expense increased $2.7 million to $1.8 million for the year ended December 31, 2009 from a $0.9 million income tax benefit for the year ended December 31, 2008. The increase in income tax expense was due to an immaterial out-of-period adjustment for previously unrecorded state taxes in the State of Texas. As part of our structure, we own TRSs that are subject to federal and state income taxes. The TRSs' combined effective tax rates of 37.8% did not change significantly for the year ended December 31, 2009.

Income from Discontinued Operations

Net income from discontinued operations decreased $1.7 million to $0.5 million for the year ended December 31, 2009 from $2.1 million for the year ended December 31, 2008. The decrease in net income from discontinued operations is primarily the result of the downturn in the overall economy, which resulted in an 8.7% decline in occupancy and a 3.4% decline in ADR for the six hotels sold in 2010.

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, and (4) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as a measure of our operating performance. FFO, Adjusted FFO, EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to FFO, Adjusted FFO, EBITDA and Adjusted EBITDA as reported by other companies that do not define such terms exactly as we define such terms.

Funds From Operations

We calculate FFO in accordance with standards established by NAREIT, which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, items classified by GAAP as extraordinary and the cumulative effect of changes in accounting principles, plus depreciation and amortization, and adjustments for unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, most real estate industry investors consider FFO to be helpful in evaluating a real estate company's operations. We believe that the presentation of FFO provides useful information to investors regarding our operating performance by excluding the effect of depreciation and amortization, gains or losses from sales for real estate, extraordinary items and the portion of items related to unconsolidated entities, all of which are based on historical cost accounting, and that FFO can facilitate comparisons of operating performance between periods and between REITs, even though FFO does not represent an amount that accrues directly to common shareholders. Our calculation of FFO may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or do not calculate FFO per diluted share in accordance with NAREIT guidance. Additionally, FFO may not be helpful when comparing us to non-REITs.

We further adjust FFO for certain additional items that are not added to net income in NAREIT's definition of FFO, such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activities, do not relate to the operating performance of our hotels. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs.

The following is a reconciliation of our GAAP net loss to FFO and Adjusted FFO for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the Year Ended December 31,		
	2010	2009	2008
Net loss available to owners(1)	$ (44,610)	$ (168,517)	$ (31,493)
Depreciation and amortization(1)(2)	100,763	96,154	84,390
FFO	**56,153**	**(72,363)**	**52,897**
Impairment loss	—	98,372	21,472
Transaction and pursuit costs(3)	14,165	8,665	1,955
Organization costs	—	—	145
Adjusted FFO	**$ 70,318**	**$ 34,674**	**$ 76,469**

(1) Excludes amounts from discontinued operations.

(2) Excludes amounts attributable to noncontrolling interest of $30 in 2010.

(3) Excludes amounts attributable to noncontrolling interest of $180 in 2010.

Earnings Before Interest, Taxes, Depreciation and Amortization

EBITDA is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sale of assets; and (3) depreciation and amortization (including amortization of non-cash share-based compensation). We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

We further adjust EBITDA for certain additional items such as impairment losses and hotel transaction and pursuit costs. Impairment losses are non-cash expenses that are generally non-recurring in nature and hotel transaction and pursuit costs, which are costs associated with our acquisition activities, do not relate to the operating performance of our hotels. We believe that Adjusted EBITDA provides investors with another financial measure that can facilitate comparisons of operating performance between periods and between REITs.

The following is a reconciliation of our GAAP net loss to EBITDA and Adjusted EBITDA for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	For the Year Ended December 31,		
	2010	2009	2008
Net loss available to owners(1)	$ (44,610)	$ (168,517)	$ (31,493)
Interest expense(1)(2)	89,181	92,175	92,892
Interest income(1)(3)	(1,770)	(568)	(1,612)
Income tax expense (benefit)(1)	945	1,801	(945)
Depreciation and amortization(1)(4)	100,763	96,154	84,390
EBITDA	**144,509**	**21,045**	**143,232**
Impairment loss	—	98,372	21,472
Transaction and pursuit costs(5)	14,165	8,665	1,955
Organization costs	—	—	145
Adjusted EBITDA	**$ 158,674**	**$ 128,082**	**$ 166,804**

(1) Excludes amounts from discontinued operations.

(2) Excludes amounts attributable to noncontrolling interest of $14 in 2010.

(3) Excludes contractual interest income of $1,587 and $56 in 2010 and 2009, respectively, associated with two owned mortgage loans collateralized by hotels.

(4) Excludes amounts attributable to noncontrolling interest of $30 in 2010.

(5) Excludes amounts attributable to noncontrolling interest of $180 in 2010.

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds necessary to pay for operating expenses and other expenditures directly associated with our initial hotels, including:

- recurring maintenance and capital expenditures necessary to maintain our initial hotels in accordance with brand standards (see "—Capital Expenditures and Reserve Funds");
- interest expense and scheduled principal payments on outstanding indebtedness, including our anticipated three-year, $300 million unsecured revolving credit facility (see "—Contractual Obligations");
- distributions necessary to qualify for taxation as a REIT; and
- capital expenditures to improve our hotels, including capital expenditures required by our franchisors in connection with our formation transactions, recent hotel acquisitions and the re-branding of five of our initial hotels upon completion of this offering and our formation transactions (see "—Capital Expenditures and Reserve Funds").

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our anticipated three-year, $300 million unsecured revolving credit facility.

Our long-term liquidity requirements consist primarily of funds necessary to pay for the costs of acquiring additional hotels and redevelopments, renovations, expansions and other capital expenditures that need to be made periodically with respect to our hotels and scheduled debt payments. We expect to meet our long-term liquidity requirements through various sources of capital, including our anticipated revolving credit facility and future equity issuances (including OP units) or debt offerings,

existing working capital, net cash provided by operations, long-term hotel mortgage indebtedness and other secured and unsecured borrowings. However, there are a number of factors that may have a material adverse effect on our ability to access these capital sources, including the current state of overall equity and credit markets, our degree of leverage, our unencumbered asset base (which, on a pro forma basis as of December 31, 2010, was comprised of 44 hotels with $234.4 million in revenue for the year ended December 31, 2010) and borrowing restrictions imposed by lenders (including as a result of any failure to comply with financial covenants in our existing and future indebtedness), general market conditions for REITs, our operating performance and liquidity and market perceptions about us. The success of our business strategy will depend, in part, on our ability to access these various capital sources.

Our hotels will require periodic capital expenditures and renovation to remain competitive. In addition, acquisitions, redevelopments or expansions of hotels will require significant capital outlays. We may not be able to fund such capital improvements solely from net cash provided by operations because we must distribute annually at least 90% of our REIT taxable income, determined without regard to the deductions for dividends paid and excluding net capital gains, to qualify and maintain our qualification as a REIT, and we are subject to tax on any retained income and gains. As a result, our ability to fund capital expenditures, acquisitions or hotel redevelopment through retained earnings is very limited. Consequently, we expect to rely heavily upon the availability of debt or equity capital for these purposes. If we are unable to obtain the necessary capital on favorable terms, or at all, our financial condition, liquidity, results of operations and prospects could be materially and adversely affected.

Revolving Credit Facility

Upon completion of this offering, we expect to enter into a three-year, $300 million unsecured revolving credit facility, which we believe will provide us with significant financial flexibility to fund future acquisitions and hotel redevelopments. We intend to repay indebtedness incurred under our anticipated revolving credit facility from time to time out of net cash provided by operations and from the net proceeds of issuances of additional equity and debt securities, as market conditions permit. See "Our Business and Properties—Our Indebtedness—Revolving Credit Facility."

Indebtedness to be Outstanding after this Offering

We intend to use substantially all of the net proceeds of this offering to repay approximately $ million of secured indebtedness that was outstanding as of December 31, 2010. Upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering as set forth under "Use of Proceeds"), we anticipate having approximately $1.3 billion in outstanding indebtedness. The following table sets forth the indebtedness that we expect

to assume upon completion of this offering and our formation transactions after application of the net proceeds of this offering, as discussed under "Use of Proceeds."

Propert(y)(ies) / Loan	Number of Assets Encumbered	Outstanding Balance at 12/31/2010	Effective Annual Interest Rate at 12/31/10(1)	Amortization Period (Years)	Maturity Date
Term Loan(2)	10	$ 140,000	5.25%	Interest Only	Sep-11(2)
Hyatt Summerfield Suites Portfolio	6				
Senior		40,425(3)	4.57%	Interest Only	Apr-12
Mezzanine		31,161(3)	6.08%	Interest Only	Apr-12
Hilton Garden Inn New York / West 35th Street	1	60,000	5.50%	Interest Only(4)	Jun-13(5)
Homewood Suites by Hilton Washington	1	31,000	5.50%	Interest Only(6)	Oct-13(5)
Embassy Suites Tampa-Downtown Convention Center	1	40,000	5.50%	Interest Only(6)	Oct-13(5)
Doubletree Metropolitan Hotel New York City	1				
Senior		150,000	4.90%	Interest Only(7)	Dec-13(5)
Mezzanine		50,000	10.75%	Interest Only(7)	Dec-13(5)
Courtyard Grand Rapids Airport	1	4,446	6.12%	25	Apr-15
Courtyard Chicago Midway Airport	1	11,997	5.55%	25	May-15
SpringHill Suites Detroit Southfield	1	5,123	5.50%	25	Jun-15
Fairfield Inn & Suites Chicago Midway Airport	1	5,205	5.55%	25	Jun-15
Courtyard Denver Southwest/Lakewood	1	2,718	5.55%	25	Jun-15
Residence Inn Denver Southwest/Lakewood	1	4,462	5.55%	25	Jun-15
SpringHill Suites Denver North/Westminster	1	10,400	5.55%	25	Jun-15
Courtyard Boulder Louisville	1	9,282	5.55%	25	Jun-15
SpringHill Suites Louisville Hurstbourne/North	1	8,317	5.55%	25	Jun-15
SpringHill Suites South Bend Mishawaka	1	5,751	5.60%	25	Jun-15
SpringHill Suites Indianapolis Carmel	1	8,956	5.60%	25	Jun-15
Courtyard Austin South	1	5,450	5.55%	25	Jun-15
Courtyard Chicago Downtown / Magnificent Mile	1	36,135	5.55%	25	Jun-15
Courtyard Denver West/Golden	1	6,861	5.60%	25	Jun-15
Courtyard Boulder Longmont	1	6,116	5.55%	25	Jun-15
SpringHill Suites Austin North/Parmer Lane	1	7,028	5.55%	25	Jun-15
Residence Inn Indianapolis Carmel	1	8,952	5.60%	25	Jun-15
Residence Inn Denver West/Golden	1	7,018	5.55%	25	Jun-15
Residence Inn Louisville Northeast	1	7,724	5.55%	25	Jun-15
Residence Inn Boulder Longmont	1	7,028	5.55%	25	Jun-15
Residence Inn Austin North/Parmer Lane	1	8,023	5.55%	25	Jun-15
Residence Inn Chicago Naperville / Warrenville	1	10,068	5.55%	25	Jun-15
Residence Inn Detroit Novi	1	7,083	5.50%	25	Jul-15
Residence Inn Chicago Oak Brook	1	11,547	5.44%	25	Sep-15
Residence Inn Salt Lake City Airport	1	9,403	6.29%	30	Jul-16
Courtyard Goshen	1	5,605	6.29%	30	Jul-16
Courtyard Chicago Southeast / Hammond, IN	1	7,871	6.29%	30	Jul-16
Fairfield Inn & Suites San Antonio Airport / North Star Mall	1	9,416	6.29%	30	Jul-16
Wachovia Loans	43	499,132	6.29%	30	Jul-16
Fairfield Inn & Suites Chicago Southeast / Hammond, IN	1	6,742	6.29%	30	Jul-16
Residence Inn and Courtyard Indianapolis	2	35,669	6.29%	30	Jul-16
Residence Inn Chicago Southeast / Hammond, IN	1	6,916	6.29%	30	Jul-16
Courtyard San Antonio Airport / North Star Mall	1	9,848	6.29%	30	Jul-16
Total/Weighted Average	**96**	**$ 1,338,878**	**5.95%**		

(1) Effective annual interest rate gives effect to interest rate swaps and LIBOR floors, as applicable.

(2) Loan originated on January 13, 2011. Ten properties are subject to negative pledges related to this facility. Maturity date may be extended for two six-month periods at our option (subject to our prior satisfaction of certain conditions,

including maintenance of specified debt service coverage ratios and advance notice of our intention to exercise the extension).

(3) Outstanding balances at December 31, 2010 reflect an aggregate $13.4 million prepayment expected to be made on the senior and mezzanine loans with a portion of the net proceeds of this offering.

(4) Interest only until June 2013, when 25 year amortization begins.

(5) Maturity date may be extended for two one-year periods at our option (subject to our prior satisfaction of certain conditions, including maintenance of specified debt service coverage ratios and advance notice of our intention to exercise the extension).

(6) Interest only until October 2013, when 25 year amortization begins.

(7) Interest only until December 2014, when 25 year amortization begins.

Sources and Uses of Cash

As of December 31, 2010, we had $267.5 million of cash and cash equivalents, compared to $151.4 million at December 31, 2009 and $156.2 million at December 31, 2008.

Cash flows from Operating Activities

Net cash flow provided by operating activities totaled $64.1 million for the year ended December 31, 2010. Net loss of $22.6 million was due in significant part to non-cash expenses, including $100.8 million of depreciation and $3.1 million of amortization of deferred financing costs, partially offset by a $23.7 million gain on the sale of six hotels. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our initial hotels resulted in net cash inflow of $5.6 million.

Net cash flow provided by operating activities totaled $28.9 million for the year ended December 31, 2009. Net loss of $168.0 million was due in significant part to non-cash expenses, including $98.9 million of depreciation, $98.4 million of impairment charges and $3.8 million of amortization. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our initial hotels resulted in net cash outflow of $5.0 million.

Net cash flow provided by operating activities totaled $77.0 million for the year ended December 31, 2008. Net loss of $29.3 million was due in significant part to non-cash expenses, including $86.9 million of depreciation, $21.5 million of impairment charges and $3.8 million of amortization. In addition, changes in operating assets and liabilities due to the timing of cash receipts and payments from our initial hotels resulted in net cash outflow of $5.2 million.

Cash flows from Investing Activities

Net cash flow used in investing activities totaled $786.6 million for the year ended December 31, 2010 primarily due to $828.9 million used for the purchase of 15 hotels, $15.9 million in improvements and additions to hotels, a purchase deposit paid of $8.5 million and the net funding of restricted cash reserves of $16.1 million, partially offset by $72.7 million from the sale of six hotels.

Net cash flow used in investing activities totaled $198.0 million for the year ended December 31, 2009 primarily due to $145.3 million used for the purchase of two hotels, $12.9 million used to purchase two loans, $20.6 million in improvements and additions to hotels and $8.6 million of net funding of restricted cash reserves.

Net cash flow used in investing activities totaled $130.4 million for the year ended December 31, 2008 primarily due to $87.8 million used for the purchase of nine hotels, net of assumed mortgage indebtedness. Additionally, $38.5 million was used to purchase improvements and additions to hotels and $9.4 million was the net funding to restricted cash reserves.

Cash flows from Financing Activities

Net cash flow provided by financing activities totaled $838.6 million for year ended December 31, 2010 primarily due to $589.1 million of borrowing under our credit facility, $331.0 million in proceeds from mortgage loans, $801.8 million in net contributions from partners, offset by $735.1 million of repayments under our credit facility, $79.7 million of mortgage loan repayments, $29.0 million in payment of member distributions, $31.0 million in payment of partners distributions and $8.4 million paid for deferred financing fees.

Net cash flow provided by financing activities totaled $164.4 million for year ended December 31, 2009 primarily due to $151.0 million of borrowing under our credit facility, $14.8 million in proceeds from mortgage loans, $48.9 million in net contributions from partners, offset by $6.0 million of repayments under our credit facility, $10.8 million of mortgage loan repayments, $33.0 million in payment of partners distributions.

Net cash flow provided by financing activities totaled $125.7 million for year ended December 31, 2008 primarily due to $57.8 million of borrowing under our credit facility, $70.6 million in proceeds from mortgage loans, $204.3 million in net contributions from partners, offset by $99.8 million of repayments under our credit facility, $6.3 million of mortgage loan repayments, $2.0 million of deferred financing costs paid, $6.4 million in payment of member distributions and $92.5 million in payment of partners distributions.

Capital Expenditures and Reserve Funds

We maintain each of our initial hotels in good repair and condition and in conformity with applicable laws and regulations, franchise agreements and management agreements. The cost of all such routine improvements and alterations will be paid out of furniture, fixture and equipment, or FF&E, reserves, which will be funded by a portion of each hotel's gross revenues. Routine capital expenditures are administered by the hotel management companies. However, we have approval rights over the capital expenditures as part of the annual budget process for each of our initial hotels.

From time to time, certain of our initial hotels may be undergoing renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space, and/or restaurants, in order to better compete with other hotels in our markets. In addition, often after we acquire a hotel, we are required to complete a property improvement plan in order to bring the hotel up to the respective franchisor's standards. If permitted by the terms of the management agreement, funding for a renovation will first come from the FF&E reserves. To the extent that the FF&E reserves are not available or adequate to cover the cost of the renovation, we will fund all or the remaining portion of the renovation with cash and cash equivalents on hand, our anticipated three-year, $300 million unsecured revolving credit facility and other sources of available liquidity.

As a result of this offering and formation transactions, we expect to enter into new franchise agreements (or assume existing franchise agreements) with respect to each of our initial hotels that is currently subject to an existing franchise agreement. In connection with entering into such new franchise agreements or assuming existing franchise agreements, we anticipate that we will be required to complete property improvement plans at certain of our initial hotels. These property improvement plans typically require the franchisee to renovate a hotel to achieve compliance with all then-current brand standards, and must be completed over a specified period of time. We currently expect that completion of property improvement plans required in connection with this offering and our formation transactions will cost between $ and $ million. In addition, we expect to incur costs of approximately $ in connection with branding or re-branding five of our initial hotels into brands affiliated with Hilton or InterContinental following the completion of this offering.

With respect to some of our hotels that are operated under franchise agreements with major national hotel brands and for some of our hotels subject to first mortgage liens, we are obligated to maintain FF&E reserve accounts for future capital expenditures at these hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the franchise and loan agreements for each of the respective hotels, and typically ranges between 2.0 and 5.0% of the respective hotel's total gross revenue. As of December 31, 2010, approximately $46.7 million was held in FF&E reserve accounts for future capital expenditures.

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no off-balance sheet arrangements, and we do not expect to have any upon completion of this offering.

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2010 (in thousands):

	Amount of Obligation or Commitment Expiration per Period						
Obligations and Commitments	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
Mortgage loans and interest(1)	$ 419,294	$ 361,224	$ 397,239	$ 48,610	$ 247,692	$ 609,189	$ 2,083,247
Purchase commitments	175,000	—	—	—	—	—	175,000
Ground rent	400	400	400	400	400	33,600	35,600
Operating lease obligations	826	845	864	887	914	138	4,475
	$ 595,520	**$ 362,469**	**$ 398,503**	**$ 49,897**	**$ 249,006**	**$ 642,927**	**$ 2,298,322**

(1) Amounts include principal and interest payments. Interest payments have been included in mortgage loans and interest based on the interest rates at December 31, 2010

The following table sets forth our contractual obligations and commitments on a pro forma basis as of December 31, 2010 to reflect the obligations and commitments that we expect to have upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering) (in thousands):

	Amount of Obligation or Commitment Expiration per Period						
Obligations and Commitments	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**
Mortgage loans and interest(1)	$ 77,157	$ 143,844	$ 395,555	$ 48,587	$ 247,671	$ 609,178	$ 1,521,989
Term loan(2)	144,900	—	—	—	—	—	144,900
Ground rent	400	400	400	400	400	33,600	35,600
Operating lease obligations	826	845	864	887	914	138	4,475
	$ 223,269	**$ 145,081**	**$ 396,819**	**$ 49,874**	**$ 248,985**	**$ 642,916**	**$ 1,706,938**

(1) Amounts include principal and interest payments. Interest payments have been included in mortgage loans and interest based on the interest rates at December 31, 2010.

(2) Amounts include principal and interest. Interest expense is calculated based on the variable rate as of December 31, 2010. It is assumed that the outstanding debt as of December 31, 2010 will be repaid upon maturity with interest-only payments until then.

Inflation

We rely entirely on the performance of the hotels and their ability to increase revenues to keep pace with inflation. Increases in the costs of operating our hotels due to inflation would adversely affect the operating performance of our TRS lessee, which in turn, could inhibit the ability of our TRS lessee

to make required rent payments to us. Hotel management companies, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our hotel management companies to raise room rates.

Seasonality

Depending on a hotel's location and market, operations for the hotel may be seasonal in nature. This seasonality can be expected to cause fluctuations in our quarterly operating performance. For hotels located in non-resort markets, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during the peak travel season. Accordingly, since, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters.

Quantitative and Qualitative Disclosures about Market Risk

Market risk includes risks that arise from changes in interest rates, equity prices and other market changes that affect market sensitive instruments. Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of December 31, 2010, we had $950.8 million of total variable rate debt outstanding (or 54.4% of total indebtedness) with a weighted average interest rate of 4.83% per annum. If market rates of interest on our variable rate debt outstanding as of December 31, 2010 were to increase by 1.0%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately $2.4 million annually, taking into account our existing contractual hedging arrangements.

Upon completion of this offering and our formation transactions, we expect to have $542.6 million of variable rate debt outstanding (or 40.5% of total indebtedness) with a weighted average interest rate of 5.72% per annum. If market rates of interest on our variable rate debt outstanding on a pro forma basis were to increase by 1.0%, or 100 basis points, interest expense would decrease future earnings and cash flows by approximately $0.5 million annually, taking into account our existing contractual hedging arrangements.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable. We have entered into derivative financial instruments, such as interest rate swaps or caps, to mitigate our interest rate risk or to effectively lock the interest rate on a portion of our variable rate debt. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

The following table provides information about our financial instruments that are sensitive to changes in interest rates, including mortgage obligations and lines of credit. For debt obligations outstanding as of December 31, 2010, the following table presents principal repayments and related weighted average interest rates by contractual maturity dates (in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Fixed rate debt	$ —	$ —	$ —	$ —	$ 205,689	$ 590,603	$ 796,292
Weighted average interest rate	—	—	—	—	5.56%	6.29%	6.10%
Variable rate debt	$ 331,210	$ 288,575	$ 331,000	$ —	$ —	$ —	$ 950,785
Weighted average interest rate	2.94%	5.62%	6.02%	—	—	—	4.83%
Total	**$ 331,210**	**$ 288,575**	**$ 331,000**	**$ —**	**$ 205,689**	**$ 590,603**	**$ 1,747,077**

The foregoing table reflects indebtedness outstanding as of December 31, 2010 and does not consider indebtedness, if any, incurred or repaid after that date. As a result, our ultimate realized gain

or loss with respect to interest rate fluctuations will depend on the exposures that arise during future periods, prevailing interest rates, and our hedging strategies at that time.

Changes in market interest rates on our fixed rate debt impact the fair value of the debt, but such changes have no impact on our combined consolidated financial statements. If interest rates rise, and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. As of December 31, 2010, the estimated fair value of our fixed rate debt was $796.5 million, which is based on having the same debt service requirements that could have been borrowed at the date presented, at prevailing current market interest rates.

The following table provides information about our financial instruments that are sensitive to changes in interest rates, including mortgage obligations and lines of credit. The following table sets forth our contractual obligations and commitments on a pro forma basis as of December 31, 2010 to reflect the obligations and commitments that we expect to have upon completion of this offering and our formation transactions by expected maturity dates (in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Fixed rate debt	$ —	$ —	$ —	$ —	$ 205,689	$ 590,603	$ 796,292
Weighted average interest rate	—	—	—	—	5.56%	6.29%	6.10%
Variable rate debt	$ 140,000	$ 71,586	$ 331,000	$ —	$ —	$ —	$ 542,586
Weighted average interest rate	5.25%	5.23%	6.02%	—	—	—	5.72%
Total	**$ 140,000**	**$ 71,586**	**$ 331,000**	**$ —**	**$ 205,689**	**$ 590,603**	**$ 1,338,878**

OUR BUSINESS AND PROPERTIES

Our Company

We are a self-advised and self-administered Maryland real estate investment trust, which invests primarily in premium-branded, focused-service and compact full-service hotels. Upon completion of this offering and our formation transactions, we will own 140 hotels in 19 states and the District of Columbia comprising over 20,400 rooms. We will be one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our initial hotels are concentrated in urban and dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry. We believe focused-service and compact full-service hotels with these characteristics generate high levels of RevPAR, strong operating margins and attractive returns.

Our strategy is to invest primarily in premium-branded, focused-service and compact full-service hotels. Focused-service and compact full-service hotels typically generate most of their revenue from room rentals, have limited food and beverage outlets and meeting space and require fewer employees than traditional full-service hotels. Although both focused-service hotels and compact full-service hotels share many of the same characteristics, focused-service hotels differ from compact full-service hotels in that they typically have less than 2,000 square feet of meeting space, if any at all, and offer services and amenities to a lesser extent than at typical compact full-service hotels. We believe premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those achieved by traditional full-service hotels while achieving higher profit margins due to their more efficient operating model and less volatile cash flows. We also may invest in compact full-service hotels, which have operating characteristics that resemble those of focused-service hotels. International lodging brands that are consistent with our premium-branded investment strategy include, among others, Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn, Homewood Suites by Hilton, Hyatt Place and Embassy Suites.

We believe that the current market environment presents attractive opportunities for us to acquire additional hotels with significant upside potential that are compatible with our investment strategy. We also believe that current lodging market fundamentals provide significant opportunities for RevPAR and EBITDA growth at our initial hotels. We believe that our senior management team's experience, extensive industry relationships and asset management expertise, coupled with our expected access to capital, will enable us to compete effectively for acquisition opportunities and help us generate strong internal growth.

We were formed to succeed to the hotel investment and ownership platform of RLJ Development and its two remaining lodging-focused private equity funds, Fund II and Fund III, which had total equity commitments of approximately $743.0 million and $1.2 billion, respectively. As part of our formation transactions, all of the existing investors in Fund II and Fund III will receive common shares and will continue to be equity owners of our company. We believe that the ongoing equity ownership in us by investors in Fund II and Fund III demonstrates their continued support of our senior management team, our investment and growth strategies and our operating model. We have in place an extensive investment and ownership platform, which is comprised of seasoned industry professionals and an efficient operating infrastructure that includes well-established systems and procedures.

Our senior management team, led by Robert L. Johnson, Executive Chairman of our board of trustees, and Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees, has significant experience acquiring, financing, renovating, repositioning, redeveloping, asset managing and selling hotels. Prior to our formation, Messrs. Johnson and Baltimore founded RLJ Development, which sponsored and managed three lodging-focused private equity funds, including Fund II and Fund III. RLJ Development and the three funds collectively completed approximately $5.7 billion in hotel acquisitions and dispositions over the past decade. Prior to forming

RLJ Development, Mr. Johnson served on the board of directors of Hilton Hotels Corporation (now known as Hilton Worldwide) from 1994 to 2006, and Mr. Baltimore held senior management positions at Hilton Hotels Corporation, Marriott Corporation and Host Marriott Services Corporation.

Competitive Strengths

We believe we distinguish ourselves from other hotel owners through the following competitive strengths:

- ***Large, established lodging platform.*** Upon completion of this offering and our formation transactions, we will own 140 hotels with over 20,400 rooms, which would have made us the second largest publicly-traded lodging REIT based on number of hotels and the fifth largest publicly-traded lodging REIT based on number of rooms, as of December 31, 2010. We believe that our scale and existing platform, coupled with our senior management team's breadth of experience, provide us with valuable insights in underwriting potential acquisitions and in asset managing our hotels, facilitate our ability to work effectively with hotel management companies and franchisors and give us significant credibility with hotel sellers.

- ***High quality hotel portfolio.*** Substantially all of our initial hotels operate under strong, premium brands and are located in urban or dense suburban markets that we believe exhibit multiple demand generators and high barriers to entry. We continually seek to further enhance the quality and performance of our initial hotels through an active capital improvement program, following the strategy of Fund II and Fund III, which, between June 2006 and December 2010, invested approximately $127.0 million (or approximately $8,800 per room on a weighted average basis) in the hotels owned by our predecessor during this period. We believe the quality of our portfolio of initial hotels is evidenced by its RevPAR penetration index of 115.7 for the year ended December 31, 2010 and our portfolio-wide guest satisfaction scores that are consistently higher than industry average scores for our respective brands.

- ***Experienced and deep senior management team with a strong track record.*** Our senior management team, led by Messrs. Johnson and Baltimore, has successfully formed and managed RLJ Development and three lodging-focused private equity funds and collectively raised approximately $2.2 billion in capital commitments and completed approximately $5.7 billion in hotel acquisitions and dispositions over the last decade. Fund I, the only one of the three funds to have sold all of its assets, generated an internal rate of return to Fund I limited partners, net of carried interest and management fees paid to the general partner, of 53.2% over the life of the fund. Our senior management team has lodging and real estate industry experience ranging from 13 to 30 years, and several members of our senior management team have worked together for approximately 10 years. Our senior management team's core competencies include key areas such as acquisitions, asset management, design and construction, and finance.

- ***Strong relationships with leading international franchisors.*** We believe that we have strong relationships with several leading international franchisors representing global hotel brands, including Marriott, Hilton and Hyatt. We are the fifth largest owner of Marriott-branded hotels in the United States based on number of hotels and number of rooms, and approximately 93% of our initial hotels will operate under brands franchised by either Marriott, Hilton or Hyatt. We believe that our senior management team's strong relationships with these leading international franchisors facilitate our ability to work effectively with them, provide us with valuable insight related to brand initiatives, and give us access to acquisition opportunities, many of which may not be available to our competitors.

- ***Use of unaffiliated hotel management companies.*** Our initial hotels are managed by 15 independent third-party hotel management companies. None of the hotel management companies are affiliated with us or our senior management team, which we believe eliminates potential conflicts

of interests that exist when using an affiliated hotel management company. We selectively choose hotel management companies with demonstrated track records of success and proven management capabilities that we believe will work closely with us to maximize the performance of our hotels. In addition, we believe that utilizing multiple hotel management companies gives us access to diverse operating initiatives and best practices that we can utilize to enhance performance and operating margins across our entire portfolio. We believe that our use of independent hotel management companies also provides us with a greater number of acquisition opportunities for two primary reasons. First, independent hotel management companies may source potential transactions for us with the expectation that they will be awarded the hotel management agreement if we acquire the hotel. Second, we are able to consider acquiring hotels that are encumbered by management agreements with a hotel management company, in addition to hotels that may be acquired without an existing management agreement in place.

- ***Prudent and flexible capital structure.*** Upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering as set forth under "Use of Proceeds"), we will have approximately $1.3 billion of indebtedness outstanding, which had a pro forma weighted average interest rate of 5.95% per annum as of December 31, 2010. Of this indebtedness, $211.6 million, or 15.8%, is expected to mature prior to 2013 (assuming we do not exercise any available extension options). In addition, concurrently with the completion of this offering and our formation transactions, we expect to enter into a three-year, $300 million unsecured revolving credit facility, which we believe will provide us with significant financial flexibility. We believe that our flexible capital structure and our capacity to incur additional indebtedness will allow us to capitalize on favorable acquisition and investment opportunities.

Our Investment and Growth Strategies

Our objective is to generate strong returns for our shareholders by investing primarily in premium-branded, focused-service hotels and compact full-service hotels at prices where we believe we can generate attractive returns on investment and generate long-term value appreciation through aggressive asset management. We intend to pursue this objective through the following investment and growth strategies:

Investment Strategies

- *Targeted ownership of premium-branded, focused-service and compact full-service hotels.* We believe that premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those generated by traditional full-service hotels, while achieving higher profit margins due to their more efficient operating model and less volatile cash flows. We also may invest in compact full-service hotels which have operating characteristics that resemble those of focused-service hotels.

- *Use of premium hotel brands.* We believe in affiliating our hotels with premium brands owned by leading international franchisors such as Marriott, Hilton and Hyatt. Within the focused-service category, we target hotels affiliated with premium brands such as Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn, Homewood Suites by Hilton and Hyatt Place. We believe that utilizing premium brands provides significant advantages because of their guest loyalty programs, worldwide reservation systems, effective product segmentation, global distribution and strong customer awareness.

- *Focus on urban and dense suburban markets.* We focus on owning and acquiring hotels in both urban and dense suburban markets that we believe have multiple demand generators and high barriers to entry. As a result, we believe that these hotels generate higher returns on investment.

Growth Strategies

- *Maximize returns from our initial hotels.* We believe that our initial hotels have the potential to generate significant improvements in RevPAR and EBITDA as a result of our aggressive asset management and the ongoing economic recovery in the United States. We actively monitor and advise our third-party hotel management companies on most aspects of our hotels' operations, including property positioning, physical design, capital planning and investment, guest experience and overall strategic direction. We regularly review opportunities to invest in our hotels in an effort to enhance the quality and attractiveness of our hotels, increase their long-term value and generate attractive returns on investment.

- *Pursue a disciplined hotel acquisition strategy.* We seek to acquire additional hotels at prices where we believe we can generate attractive returns on investment. We intend to target acquisition opportunities where we can enhance value by pursuing proactive investment strategies such as renovation, repositioning or re-branding. We may be able to acquire hotels on more attractive terms from sellers who may be able to defer tax obligations by contributing hotels to our operating partnership in exchange for OP units, which will be redeemable for cash or, at our option, common shares. As a result, such sellers can take advantage of tax deferral on the sale of a hotel and participate in the potential appreciation in the value of our common shares.

- *Pursue a disciplined capital recycling program.* We intend to pursue a disciplined capital allocation strategy designed to maximize the value of our investments by selectively selling hotels that are no longer consistent with our investment strategy or whose returns appear to have been maximized. To the extent that we sell hotels, we intend to redeploy the capital into acquisition and investment opportunities that we believe will achieve higher returns.

The U.S. Lodging Industry and Market Opportunity

Following the global economic recession, the U.S. economy continues to show signs of recovery. In 2010, U.S. lodging industry fundamentals began to show improvement, a trend that industry analysts, including Colliers PKF Hospitality Research, expect to continue for the foreseeable future. While the U.S. lodging industry's operating performance has started to improve from trough levels, performance remains significantly below the peak levels achieved in 2007.

Lodging Fundamentals

According to Smith Travel Research, from August 2008 through February 2010, the U.S. lodging industry experienced 19 consecutive months of RevPAR declines, driven by a combination of deteriorating room night demand, increasing supply, and declining ADR. As measured by Smith Travel Research, hotel room night demand decreased 2.4% and 6.1% in 2008 and 2009, respectively, marking the greatest two-year decline in the past 22 years. Conversely, Smith Travel Research reported that room supply growth of 2.5% and 3.0% in 2008 and 2009, respectively, exceeded the 22-year average of 2.1%, as a significant amount of construction initiated prior to the economic downturn was completed. According to Smith Travel Research, for the year ended December 31, 2009, average annual hotel occupancy in the United States was 54.5%, representing the lowest annual level in the last 22 years and well below the industry average of 62.0% for that period. Due to the significant decline in occupancy in 2009, ADR was under extreme pressure and, as a result, declined 8.5%, according to data published by Smith Travel Research. These deteriorating fundamentals led to a combined 18.3% decline in RevPAR from the end of 2007 to the end of 2009, according to data published by Smith Travel Research.

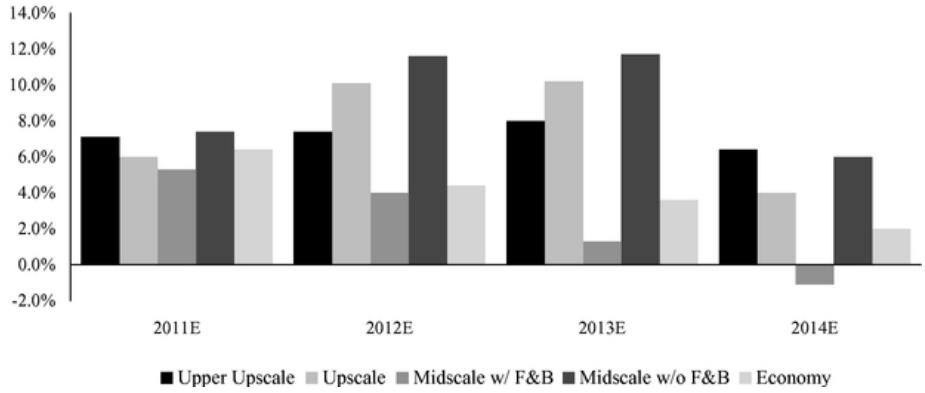
Following a period of sustained job loss during 2008 and 2009, the U.S. unemployment rate, as measured by the Bureau of Labor Statistics, stabilized in 2010 and the overall economy continues to exhibit signs of recovery, with six consecutive quarters of positive growth in GDP according to the

Bureau of Economic Analysis. Although the U.S. lodging industry has historically lagged the broader economy, throughout 2010, hotel operating fundamentals had reacted strongly to the recent economic growth as key industry operating metrics had significantly improved. Since resuming a positive growth trend in March 2010, U.S. hotel RevPAR has increased in excess of 7.0% in each month from May 2010 to February 2011, according to data published by Smith Travel Research. Hotel room night demand for 2010 also increased 7.6% relative to 2009, according to data published by Smith Travel Research. In a further sign of recovery, hotel pricing power began to return to the market in 2010, as ADRs increased every month from May 2010 to February 2011, according to data published by Smith Travel Research. While operating fundamentals are recovering from the historically low levels witnessed during 2009, industry operating performance remains significantly below prior peak levels achieved in 2007.

We believe that until lodging occupancy levels return to long-term historical averages and lenders ease restrictions on construction financing, growth in room supply is likely to remain below the historical average. With limited new supply, we expect attractive RevPAR growth as the U.S. economy continues to strengthen. Colliers PKF Hospitality Research currently projects RevPAR growth of 7.1% in 2011, 8.9% in 2012, 9.3% in 2013 and 5.4% in 2014.

The U.S. lodging industry has historically experienced above average growth in years following economic downturns. Furthermore, the upscale chain scale, as defined by Smith Travel Research, which includes the majority of our initial hotels (under such brands as Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn, Homewood Suites by Hilton and Hyatt Place), typically outperforms the overall U.S. lodging industry during years of positive RevPAR growth. According to Smith Travel Research, after emerging from the 1990-1991 recession, hotels in the upscale chain scale averaged 5.9% RevPAR growth over the subsequent five-year period while the overall U.S. lodging industry averaged 4.6% RevPAR growth for the same period. Similarly, Smith Travel Research reports that, following the economic downturn from 2001 to 2002, RevPAR growth for the upscale chain scale averaged 6.5% during the subsequent four-year period, exceeding the growth rate of 6.2% for the overall U.S. lodging industry over the same period. We believe that, as the economy continues to emerge from the recent recession, a portfolio of well-capitalized upscale hotels should achieve significant growth. As illustrated in the chart below, Colliers PKF Hospitality Research is projecting positive RevPAR growth over the next four years.

RevPAR Growth By Chain Scale



Source: Colliers PKF Hospitality Research

Demand Overview

Room night demand in the U.S. lodging industry has historically been directly correlated with macroeconomic trends. Key drivers of this demand include growth in GDP, corporate profitability, capital investments and employment. The International Monetary Fund is forecasting U.S. GDP growth of 2.3% in 2011, and Colliers PKF Hospitality Research expects that hotel room night demand will grow by 4.0% during 2011. The following chart illustrates the historical correlation between U.S. GDP and hotel room night demand.

Annual Percentage Change in U.S. Hotel Room Demand vs. U.S. GDP Growth

Source: Smith Travel Research and U.S. Department of Commerce (1988-2010); Colliers PKF Hospitality Research and International Monetary Fund (2011E).

With expected growth in room night demand and limited new supply, occupancy is projected to increase from industry lows experienced in 2009, as demonstrated in the chart below.

U.S. Hotel Industry Annual Occupancy Rate

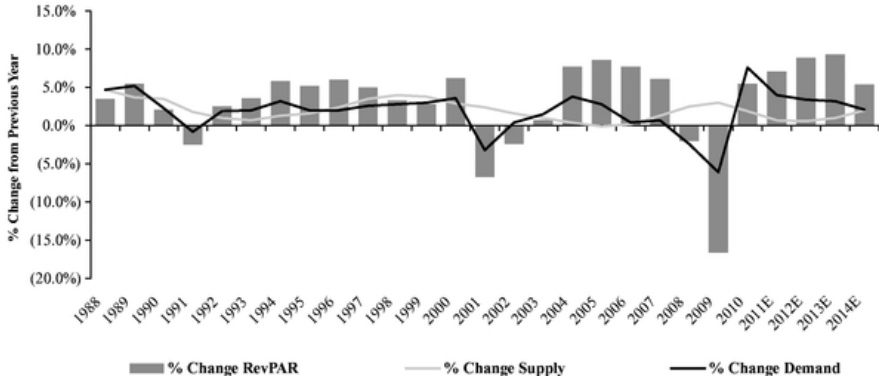
Source: Smith Travel Research (1988-2010); Colliers PKF Hospitality Research (2011-2014E).

Supply Overview

In general, new hotel development is often thought to be financially justifiable only when the national occupancy rate exceeds the long-term historical average. As a result, lodging supply growth

typically lags growth in hotel room night demand. Key drivers of lodging supply growth include the availability and cost of capital, construction costs, local real estate market conditions, room night availability and valuation of existing hotels. Given the decline in hotel room night demand in 2008 and 2009 and inefficiencies in the financing market, new hotel construction is expected to remain below historical averages through 2013, according to Colliers PKF Hospitality Research.

U.S. Hotel Industry—Annual Historical and Projected Change in RevPar, Room Demand, and Room Supply



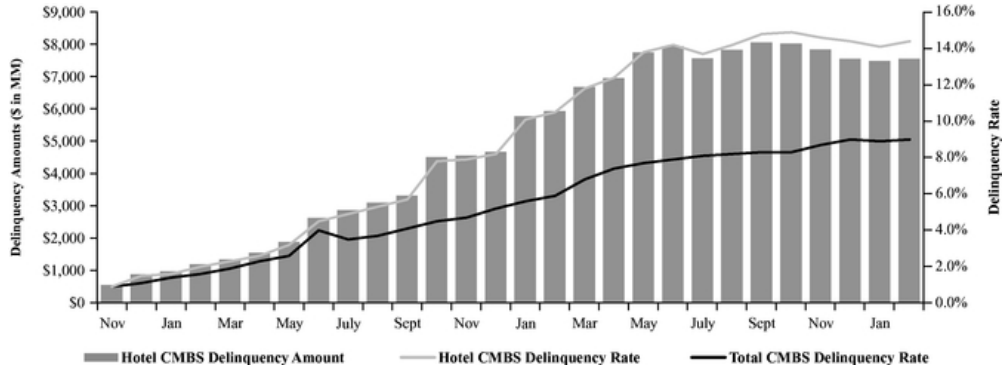
Source: Smith Travel Research (1988-2010); Colliers PKF Hospitality Research (2011-2014E).

Attractive Transaction Landscape

The significant decline in U.S. lodging fundamentals and subsequent erosion of cash flows has created a difficult environment for undercapitalized hotel owners. Delinquency rates on hotel-related commercial mortgage-backed securities, or CMBS, have steadily increased since November 2008, as many hotel owners have been unable to fund debt service payments. As of February 28, 2011, approximately 14.4% of all hotel-related CMBS (by principal) were delinquent compared to just 0.9% as of November 30, 2008, according to Standard & Poor's, a division of the McGraw-Hill Companies.

The following chart shows delinquency rates and amounts of hotel-related CMBS from November 2008 to February 2011.

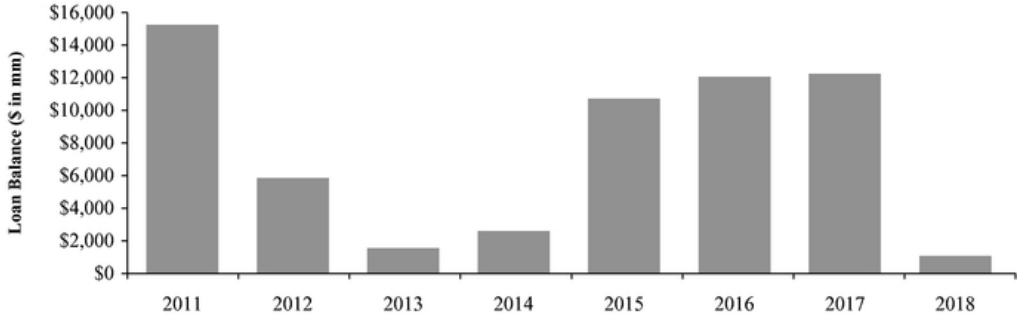
Hotel CMBS Delinquency Rates and Amounts



Source: Standard & Poor's North American CMBS Monthly Snapshot.

Many hotel owners may be unable to fund the necessary (and often required) capital improvements to comply with brand standards or maintain a hotel's competitive position. Hotel owners may also face significant refinancing issues, with approximately $15.5 billion of hotel-related CMBS loans maturing in 2011. The following chart shows future maturities of hotel-related CMBS.

Hotel CMBS Final Maturities

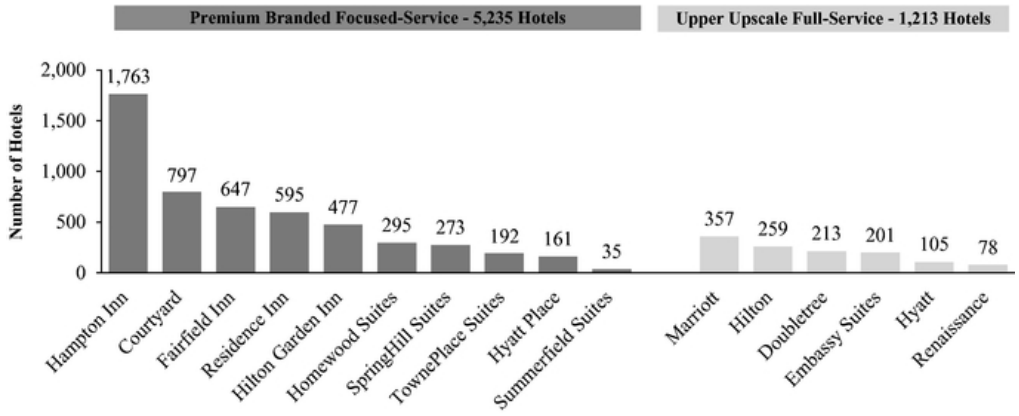


Source: Trepp as of April 6, 2011.

We believe that as a result of the recent economic downturn, traditional lending sources, such as banks, insurance companies and pension funds, have adopted more conservative lending policies and have materially reduced their lending exposure to hotels. We also believe that the significant number of hotels experiencing substantial declines in operating cash flow, coupled with the challenged credit markets, near-term debt maturities and, in some instances, covenant defaults relating to outstanding indebtedness, will present attractive investment opportunities for well-capitalized investors.

Focused-Service Market Opportunity

We believe that the current market environment presents particularly attractive acquisition opportunities within the focused-service hotel category. First, we believe that privately owned hotel companies have greater constraints on capital-raising than their public REIT competitors. Second, while there are a number of publicly-traded REITs that focus on acquiring hotels in the full-service sector, there are fewer publicly-traded REITs that primarily target the focused-service sector. According to Smith Travel Research, as of February 2011 there were an estimated four times as many focused-service hotels as full-service hotels within our targeted brand families operating in the United States. We believe that the combination of a relatively larger universe of acquisition targets, coupled with a smaller number of potential buyers, will create attractive acquisition opportunities. The following chart outlines the number of U.S. hotel properties in the upscale and upper midscale segments, or premium-branded, focused-service category, relative to the upper-upscale segment for Hilton, Hyatt, and Marriott, international franchisors that best represent our initial hotels.



Source: Smith Travel Research. The "Premium Branded Focused-Service Hotels" category illustrated in the chart above, is a combination of Smith Travel Research's "upscale" and "upper midscale" chain scale segments.

Our Initial Hotels

Historical Overview

Upon completion of this offering and our formation transactions, we will own a high-quality portfolio of 140 hotels located in 19 states and the District of Columbia comprising over 20,400 rooms. For the year ended December 31, 2010, the average occupancy rate for our initial hotels was 69.4%, and the ADR and RevPAR of our initial hotels was $118.46 and $82.22, respectively. No single hotel accounted for more than 8.7% of our total pro forma revenue for the year ended December 31, 2010.

We believe that the quality of our portfolio is evidenced by the RevPAR penetration index of 115.7 for our initial hotels for the year ended December 31, 2010 and portfolio-wide guest satisfaction scores that are consistently higher than the average industry scores for their respective brands.

The following table sets forth certain operating information for our initial hotels as of and for the years ended December 31, 2010, 2009 and 2008 (excluding hotels that were not open at the end of the applicable period):

	Year Ended or as of December 31,		
	2010(2)	2009(3)	2008(4)
Statistical data(1):			
Number of hotels	139	138	137
Number of rooms	20,355	20,075	19,777
Occupancy(5)	69.4%	65.2%	69.2%
ADR(6)	$ 118.46	$ 117.66	$ 133.30
RevPAR(7)(8)	$ 82.22	$ 76.69	$ 92.20

(1) The 133-room Garden District Hotel was closed for substantially all of the periods presented and, therefore, is not reflected in this statistical data.

(2) Excludes one hotel that was not open at the end of the period.

(3) Excludes two hotels that were not open at the end of the period.

(4) Excludes three hotels that were not open at the end of the period.

(5) Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of rooms available. Occupancy measures the utilization of our hotels' available capacity. We use occupancy to measure demand at a specific hotel or group of hotels in a given period. Additionally, occupancy levels help us determine achievable ADR levels.

(6) ADR represents total hotel room revenues divided by total number of rooms sold in a given period. ADR measures average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. We use ADR to assess the pricing levels that we are able to generate, as changes in ADR have a greater impact on operating margins and profitability than changes in occupancy.

(7) RevPAR is the product of ADR and occupancy. RevPAR does not include non-room revenues such as food and beverage revenue or other operating department revenues. We use RevPAR to identify trend information with respect to room revenues from comparable properties and to evaluate hotel performance on a regional basis.

(8) The RevPAR for the 136 hotels that were open for all of 2008, 2009 and 2010 was $92.19, $74.91 and $78.73 for 2008, 2009 and 2010, respectively.

Geographic Diversification

We believe our initial hotels are geographically diverse. No MSA and no individual hotel accounted for more than 14.8% or 8.7%, respectively, of our total pro forma revenue for the year ended December 31, 2010. Our initial hotels located in the New York, New York, Chicago, Illinois, Austin, Texas, Denver-Boulder, Colorado, Louisville, Kentucky, and the Baltimore, Maryland-Washington, D.C. metropolitan areas accounted for approximately 14.8%, 13.2%, 10.6%, 9.6%, 6.9%, and 5.5%, respectively, of our total pro forma revenue for the year ended December 31, 2010. The following table shows the geographic diversification of our initial hotels as of the date of this prospectus as well as the percentage of our total pro forma revenue derived from each geographic region for the year ended December 31, 2010:

Region	Number of Hotels	Number of Rooms	Percentage of Total 2010 Pro Forma Revenue
Northeast (Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont)	7	2,160	19.4%
Midwest (Indiana, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin)	45	5,592	22.4%
South (Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia)	63	9,305	43.1%
West (Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming)	25	3,431	15.1%
Total	**140**	**20,488**	**100%**

Operating Information

The following table shows certain operating information by region for our initial hotels for the years ended December 31, 2010, 2009 and 2008:

	2010			2009			2008		
Region	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Northeast	85.8%	$ 186.84	$ 160.25	84.0%	$ 171.43	$ 143.92	84.6%	$ 210.12	$ 177.71
Midwest	66.2%	101.53	67.22	61.0%	103.18	62.97	66.2%	119.52	79.17
South	67.9%	114.17	77.49	65.3%	116.15	75.85	69.1%	129.31	89.29
West	68.8%	104.56	71.92	61.6%	106.14	65.35	67.2%	121.66	81.69
Total	**69.4%**	**$ 118.46**	**$ 82.22**	**65.2%**	**$ 117.66**	**$ 76.69**	**69.2%**	**$ 133.30**	**$ 92.20**

(1) Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of rooms available. Occupancy measures the utilization of our hotels' available capacity. We use occupancy to measure demand at a specific hotel or group of hotels in a given period. Additionally, occupancy levels help us determine achievable ADR levels.

(2) ADR represents total hotel room revenues divided by total number of rooms sold in a given period. ADR measures average room price attained by a hotel and ADR trends provide useful information concerning the pricing environment and the nature of the customer base of a hotel or group of hotels. We use ADR to assess the pricing levels that we are able to generate, as changes in ADR have a greater impact on operating margins and profitability than changes in occupancy.

(3) RevPAR is the product of ADR and occupancy. RevPAR does not include non-room revenues such as food and beverage revenue or other operating department revenues. We use RevPAR to identify trend information with respect to room revenues from comparable properties and to evaluate hotel performance on a regional basis.

Brand Affiliations

Our initial hotels operate under strong, premium brands, with approximately 93% of our initial hotels operating under existing relationships with Marriott, Hilton or Hyatt. The following table sets forth the brand affiliations of our initial hotels:

Brand Affiliations	Number of Hotels	Percentage of Total	Number of Rooms	Percentage of Total
Marriott				
Courtyard by Marriott	32	22.9%	4,223	20.6%
Fairfield Inn & Suites by Marriott	14	10.0%	1,433	7.0%
Marriott	6	4.3%	1,834	9.0%
Renaissance	3	2.1%	782	3.8%
Residence Inn by Marriott	33	23.6%	3,607	17.6%
SpringHill Suites by Marriott	11	7.9%	1,354	6.6%
Subtotal	**99**	**70.8%**	**13,233**	**64.6%**
Hilton				
Doubletree	2	1.4%	911	4.5%
Embassy Suites	4	2.9%	950	4.6%
Hampton Inn/Hampton Inn & Suites	9	6.4%	1,115	5.4%
Hilton	2	1.4%	462	2.3%
Hilton Garden Inn	6	4.3%	1,174	5.7%
Homewood Suites	2	1.4%	301	1.5%
Subtotal	**25**	**17.8%**	**4,913**	**24.0%**
Hyatt				
Hyatt Summerfield Suites	6	4.3%	828	4.0%
Subtotal	**6**	**4.3%**	**828**	**4.0%**
Other Brand Affiliation/Independent(1)	**10**	**7.1%**	**1,514**	**7.4%**
Total	**140**	**100.0%**	**20,488**	**100.0%**

(1) Following the completion of this offering, we expect to brand or re-brand 5 of these 10 hotels into brands affiliated with Hilton or InterContinental.

Our Initial Hotels

The following table provides a comprehensive list of our initial hotels. The table includes key metrics such as each hotel's brand, franchise affiliation, service level and geographic region:

Hotel	State	Region	Year Opened(1)	Rooms	Brand Parent Company	Brand	Service Level
Courtyard Chicago Downtown/Magnificent Mile	IL	Midwest	2003	306	Marriott	Courtyard by Marriott	Focused Service
Courtyard Austin Downtown/Convention Center(2)	TX	South	2006	270	Marriott	Courtyard by Marriott	Focused Service
Courtyard Austin-University Area	TX	South	1987	198	Marriott	Courtyard by Marriott	Focused Service
Courtyard Houston by The Galleria	TX	South	2007	190	Marriott	Courtyard by Marriott	Focused Service
Courtyard Atlanta Buckhead	GA	South	1996	181	Marriott	Courtyard by Marriott	Focused Service
Courtyard Chicago Midway Airport	IL	Midwest	1997	174	Marriott	Courtyard by Marriott	Focused Service
Courtyard Chicago Schaumburg	IL	Midwest	2005	162	Marriott	Courtyard by Marriott	Focused Service
Courtyard Boulder Louisville	CO	West	1996	154	Marriott	Courtyard by Marriott	Focused Service
Courtyard Salt Lake City Airport	UT	West	1999	154	Marriott	Courtyard by Marriott	Focused Service
Courtyard Austin Airport	TX	South	2006	150	Marriott	Courtyard by Marriott	Focused Service
Courtyard Fort Wayne	IN	Midwest	1989	142	Marriott	Courtyard by Marriott	Focused Service
Courtyard Grand Junction	CO	West	2007	136	Marriott	Courtyard by Marriott	Focused Service
Courtyard Fort Lauderdale SW/Miramar	FL	South	2006	128	Marriott	Courtyard by Marriott	Focused Service
Courtyard Indianapolis at the Capitol	IN	Midwest	1997	124	Marriott	Courtyard by Marriott	Focused Service
Courtyard Louisville Northeast	KY	South	2004	114	Marriott	Courtyard by Marriott	Focused Service
Courtyard Merrillville	IN	Midwest	1987	112	Marriott	Courtyard by Marriott	Focused Service
Courtyard Houston Sugar Land	TX	South	1997	112	Marriott	Courtyard by Marriott	Focused Service
Courtyard Valparaiso	IN	Midwest	1985	111	Marriott	Courtyard by Marriott	Focused Service
Courtyard Austin South	TX	South	1996	110	Marriott	Courtyard by Marriott	Focused Service
Courtyard Denver West/Golden	CO	West	2000	110	Marriott	Courtyard by Marriott	Focused Service
Courtyard Detroit Pontiac/Bloomfield	MI	Midwest	1998	110	Marriott	Courtyard by Marriott	Focused Service
Courtyard Austin Northwest/Arboretum	TX	South	1996	102	Marriott	Courtyard by Marriott	Focused Service
Courtyard Dallas Mesquite	TX	South	1998	101	Marriott	Courtyard by Marriott	Focused Service
Courtyard Benton Harbor St. Joseph	MI	Midwest	1988	98	Marriott	Courtyard by Marriott	Focused Service
Courtyard Goshen	IN	Midwest	1989	91	Marriott	Courtyard by Marriott	Focused Service
Courtyard Tampa Brandon	FL	South	1997	90	Marriott	Courtyard by Marriott	Focused Service
Courtyard Denver Southwest/Lakewood	CO	West	1999	90	Marriott	Courtyard by Marriott	Focused Service
Courtyard Chicago Southeast/Hammond, IN	IN	Midwest	1997	85	Marriott	Courtyard by Marriott	Focused Service
Courtyard Grand Rapids Airport	MI	Midwest	1997	84	Marriott	Courtyard by Marriott	Focused Service
Courtyard Boulder Longmont	CO	West	2002	78	Marriott	Courtyard by Marriott	Focused Service

Hotel	State	Region	Year Opened(1)	Rooms	Brand Parent Company	Brand	Service Level
Courtyard South Bend Mishawaka	IN	Midwest	1995	78	Marriott	Courtyard by Marriott	Focused Service
Courtyard San Antonio Airport/North Star Mall	TX	South	1996	78	Marriott	Courtyard by Marriott	Focused Service
Fairfield Inn & Suites Washington, DC/Downtown (Red Roof Inn)	DC	South	1986	198	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Denver Cherry Creek	CO	West	1986	134	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites San Antonio Airport/North Star Mall	TX	South	1996	120	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Chicago Midway Airport	IL	Midwest	1997	114	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Merrillville	IN	Midwest	1990	112	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites San Antonio Downtown/Market Square	TX	South	1995	110	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Tampa Brandon	FL	South	1997	107	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Key West	FL	South	1986	106	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Chicago Southeast/Hammond, IN	IN	Midwest	1997	94	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Indianapolis Airport	IN	Midwest	1994	86	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Austin South	TX	South	1995	63	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Austin-University Area	TX	South	1995	63	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Memphis	TN	South	1995	63	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Fairfield Inn & Suites Valparaiso	IN	Midwest	1996	63	Marriott	Fairfield Inn & Suites by Marriott	Focused Service
Louisville Marriott Downtown(2)	KY	South	2005	616	Marriott	Marriott	Full Service
Auburn Hills Marriott Pontiac at Centerpoint	MI	Midwest	2000	290	Marriott	Marriott	Compact Full Service
Denver Marriott South at Park Meadows	CO	West	2003	279	Marriott	Marriott	Compact Full Service
Denver Airport Marriott at Gateway Park	CO	West	1998	238	Marriott	Marriott	Compact Full Service
Austin Marriott South	TX	South	2001	211	Marriott	Marriott	Compact Full Service
Chicago Marriott Midway	IL	Midwest	2002	200	Marriott	Marriott	Compact Full Service
Renaissance Pittsburgh Hotel	PA	Northeast	2001	300	Marriott	Renaissance	Compact Full Service
Renaissance Fort Lauderdale-Plantation Hotel	FL	South	2002	250	Marriott	Renaissance	Compact Full Service
Renaissance Boulder FlatIron Hotel	CO	West	2002	232	Marriott	Renaissance	Compact Full Service
Residence Inn Austin Downtown/Convention Center(2)	TX	South	2006	179	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn National Harbor Washington, DC	MD	South	2008	162	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Chicago Oak Brook(2)	IL	Midwest	2003	156	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Houston by The Galleria	TX	South	1994	146	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Louisville Downtown	KY	South	2005	140	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Fort Lauderdale Plantation	FL	South	1996	138	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Indianapolis Downtown on the Canal	IN	Midwest	1997	134	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Chicago Naperville/Warrenville	IL	Midwest	2003	130	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Fort Lauderdale SW/Miramar	FL	South	2006	130	Marriott	Residence Inn by Marriott	Focused Service

Hotel	State	Region	Year Opened(1)	Rooms	Brand Parent Company	Brand	Service Level
Residence Inn Silver Spring	MD	South	2005	130	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Chicago Schaumburg	IL	Midwest	2001	125	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Indianapolis Carmel	IN	Midwest	2002	120	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Detroit Pontiac/Auburn Hills	MI	Midwest	1998	114	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Columbia	MD	South	1998	108	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Detroit Novi	MI	Midwest	2003	107	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Grand Junction	CO	West	2007	104	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Salt Lake City Airport	UT	West	1999	104	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Denver Southwest/Lakewood	CO	West	1998	102	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Louisville Northeast	KY	South	2000	102	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Austin Round Rock	TX	South	1999	96	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Indianapolis Airport	IN	Midwest	1994	95	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn San Antonio Downtown/Market Square	TX	South	1995	95	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Austin North/Parmer Lane	TX	South	2000	88	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Denver West/Golden	CO	West	2000	88	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Boulder Louisville	CO	West	2000	88	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Austin Northwest/Arboretum	TX	South	1996	84	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Boulder Longmont	CO	West	2002	84	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn South Bend	IN	Midwest	1988	80	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Indianapolis Fishers	IN	Midwest	1996	78	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Chicago Southeast/Hammond, IN	IN	Midwest	1998	78	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Merrillville	IN	Midwest	1996	78	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Houston Sugar Land	TX	South	1997	78	Marriott	Residence Inn by Marriott	Focused Service
Residence Inn Austin South	TX	South	1996	66	Marriott	Residence Inn by Marriott	Focused Service
SpringHill Suites Denver North/Westminster	CO	West	2002	164	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Austin South	TX	South	2000	152	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Louisville Hurstbourne/North	KY	South	2001	142	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Austin North/Parmer Lane	TX	South	2002	132	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Chicago Schaumburg	IL	Midwest	2001	132	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Indianapolis Carmel	IN	Midwest	2002	126	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Gainesville	FL	South	2007	126	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Bakersfield	CA	West	2007	119	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Boulder Longmont	CO	West	2005	90	Marriott	SpringHill Suites by Marriott	Focused Service

Hotel	State	Region	Year Opened(1)	Rooms	Brand Parent Company	Brand	Service Level
SpringHill Suites South Bend Mishawaka	IN	Midwest	2001	87	Marriott	SpringHill Suites by Marriott	Focused Service
SpringHill Suites Detroit Southfield	MI	Midwest	2003	84	Marriott	SpringHill Suites by Marriott	Focused Service
Doubletree Metropolitan Hotel New York City(3)	NY	Northeast	1962	759	Hilton	Doubletree	Compact Full Service
Doubletree Hotel Columbia	MD	South	1982	152	Hilton	Doubletree	Compact Full Service
Embassy Suites Tampa-Downtown Convention Center	FL	South	2006	360	Hilton	Embassy Suites	Compact Full Service
Embassy Suites Columbus	OH	Midwest	1984	221	Hilton	Embassy Suites	Compact Full Service
Embassy Suites Los Angeles-Downey	CA	West	1985	219	Hilton	Embassy Suites	Compact Full Service
Embassy Suites Fort Myers-Estero	FL	South	2006	150	Hilton	Embassy Suites	Compact Full Service
Hampton Inn Houston-Near The Galleria	TX	South	1995	176	Hilton	Hampton Inn	Focused Service
Hampton Inn Chicago-Midway Airport	IL	Midwest	1990	170	Hilton	Hampton Inn	Focused Service
Hampton Inn Garden City(2)	NY	Northeast	2006	143	Hilton	Hampton Inn	Focused Service
Hampton Inn West Palm Beach Central Airport	FL	South	2004	105	Hilton	Hampton Inn	Focused Service
Hampton Inn Ft. Walton Beach	FL	South	2000	100	Hilton	Hampton Inn	Focused Service
Hampton Inn Merrillville	IN	Midwest	1995	64	Hilton	Hampton Inn	Focused Service
Hampton Inn & Suites Clearwater/St. Petersburg-Ulmerton Road, FL	FL	South	2007	128	Hilton	Hampton Inn & Suites	Focused Service
Hampton Inn & Suites Denver Tech Center	CO	West	1999	123	Hilton	Hampton Inn & Suites	Focused Service
Hampton Inn & Suites Las Vegas-Red Rock/Summerlin	NV	West	2007	106	Hilton	Hampton Inn & Suites	Focused Service
Hilton New York/Fashion District (Fashion 26)	NY	Northeast	2010	280	Hilton	Hilton	Compact Full Service
Hilton Mystic	CT	Northeast	1986	182	Hilton	Hilton	Compact Full Service
Hilton Garden Inn New York/West 35th Street	NY	Northeast	2009	298	Hilton	Hilton Garden Inn	Focused Service
Hilton Garden Inn New Orleans Convention Center	LA	South	2000	284	Hilton	Hilton Garden Inn	Focused Service
Hilton Garden Inn Chicago/Midway Airport	IL	Midwest	2005	174	Hilton	Hilton Garden Inn	Focused Service
Hilton Garden Inn Bloomington(2)	IN	Midwest	2006	168	Hilton	Hilton Garden Inn	Focused Service
Hilton Garden Inn St. George	UT	West	2005	150	Hilton	Hilton Garden Inn	Focused Service
Hilton Garden Inn West Palm Beach Airport	FL	South	2007	100	Hilton	Hilton Garden Inn	Focused Service
Homewood Suites by Hilton Washington	DC	South	2001	175	Hilton	Homewood Suites	Focused Service
Homewood Suites by Hilton Tampa-Brandon	FL	South	2006	126	Hilton	Homewood Suites	Focused Service
Hyatt Summerfield Suites Dallas/Lincoln Park	TX	South	2000	155	Hyatt	Summerfield Suites	Focused Service
Hyatt Summerfield Suites Houston/Galleria	TX	South	2000	147	Hyatt	Summerfield Suites	Focused Service
Hyatt Summerfield Suites Dallas/Uptown	TX	South	2000	141	Hyatt	Summerfield Suites	Focused Service
Hyatt Summerfield Suites Austin/Arboretum	TX	South	1999	130	Hyatt	Summerfield Suites	Focused Service
Hyatt Summerfield Suites Dallas/Richardson	TX	South	1997	130	Hyatt	Summerfield Suites	Focused Service
Hyatt Summerfield Suites Colorado Springs	CO	West	2000	125	Hyatt	Summerfield Suites	Focused Service
Crowne Plaza Hotel West Palm Beach	FL	South	1983	219	InterContinental	Crowne Plaza	Compact Full Service
Holiday Inn Austin-NW Plaza/Arboretum Area	TX	South	1984	194	InterContinental	Holiday Inn	Compact Full Service
Holiday Inn Select Grand Rapids Airport	MI	Midwest	2003	148	InterContinental	Holiday Inn	Compact Full Service
Holiday Inn Express Chicago-Midway Airport	IL	Midwest	1999	104	InterContinental	Holiday Inn Express	Focused Service
Holiday Inn Express Merrillville	IN	Midwest	1995	62	InterContinental	Holiday Inn Express	Focused Service
Hollywood Heights Hotel	CA	West	1975	160	Independent	Independent	Focused Service
Garden District Hotel(4)	LA	South	1955	133	Independent	Independent	Focused Service
Wyndham Pittsburgh	PA	Northeast	1970	198	Wyndham	Wyndham	Compact Full Service
Wyndham Raleigh Durham-Research Triangle Park	NC	South	1989	175	Wyndham	Wyndham	Compact Full Service
Sleep Inn Midway Airport	IL	Midwest	1995	121	Choice Hotels	Sleep Inn	Focused Service

(1) Represents the year that each hotel was initially constructed and opened.

(2) This hotel is subject to a ground lease. See "Our Principal Agreements—Ground Leases" for more information.

(3) This hotel is owned through a joint venture in which we own a 95% economic interest. We are the managing member of this joint venture and control all material decisions related to this hotel. Our joint venture partner is affiliated with the hotel's property manager.

(4) Hotel is currently closed and under renovation. It is currently scheduled to re-open in the second quarter of 2012.

Acquisition Pipeline

We believe that our senior management team's extensive network of relationships within the lodging industry will continue to provide us with access to an ongoing pipeline of attractive acquisition opportunities, many of which may not be available to our competitors. We have identified and are in various stages of reviewing and negotiating a number of additional potential hotel acquisition opportunities. As of 2011, we were actively reviewing potential hotel acquisitions having an aggregate transaction value in excess of $ million, based on our preliminary discussions with sellers and our internal assessment of the hotels' values. Although we are continuing to engage in discussions with sellers and have commenced the process of conducting diligence on some of these hotels or have submitted non-binding indications of interest, we have not agreed upon terms related to, or entered into binding commitments with respect to, any of these potential acquisition opportunities, and therefore do not believe any of these possible acquisitions are probable at this time. As such, there can be no assurance that we will consummate any of the potential acquisitions we are currently evaluating.

Our Financing Strategy

We expect to maintain a prudent capital structure, but do not have a targeted leverage range. Over time, we intend to finance our long-term growth with equity issuances and debt financing having staggered maturities. Initially, our debt will include mortgage debt secured by our hotels and unsecured debt. Upon completion of this offering and our formation transactions, we will have a mix of fixed and floating rate debt, though initially the majority of our debt will either bear interest at fixed rates or effectively bear interest at fixed rates due to interest rate hedges on the debt. Over time, we will seek to primarily utilize unsecured debt (with the goal of achieving an investment grade credit rating) and a greater percentage of fixed rate and hedged floating rate debt relative to unhedged floating rate debt.

Concurrently with the completion of this offering and our formation transactions, we anticipate entering into a three-year, $300 million unsecured revolving credit facility with affiliates of certain of the underwriters to fund future acquisitions, as well as for hotel redevelopments, capital expenditures and general corporate purposes. See "Our Business and Properties—Our Indebtedness—Revolving Credit Facility."

Regulation

General

Our initial hotels are subject to various U.S. federal, state and local laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of our initial hotels has the necessary permits and approvals to operate its business.

Americans with Disabilities Act

Our initial hotels must comply with applicable provisions of the ADA, to the extent that such hotels are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our initial hotels where such removal is readily achievable. We believe that our initial hotels are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, non-compliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect.

Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator (including tenants) of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up such contamination at that property or emanating from that property. These costs could be substantial and liability under these laws may attach without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our hotels may expose us to third-party liability or materially and adversely affect our ability to sell, lease or develop the real estate or to incur debt using the real estate as collateral.

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew and waste management. Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance.

Some of our initial hotels contain asbestos-containing building materials. We believe that the asbestos is appropriately contained, in accordance with current environmental regulations and that we have no need for any immediate remediation or current plans to remove the asbestos. Environmental laws require that owners or operators of buildings with asbestos-containing building materials properly manage and maintain these materials, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

Some of our hotels may contain or develop harmful mold or suffer from other adverse conditions, which could lead to liability for adverse health effects and costs of remediation. The presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected hotel or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from guests or employees at our hotels and others if property damage or health concerns arise.

Insurance

Upon completion of this offering and our formation transactions, we will carry comprehensive general liability, fire, extended coverage, business interruption, rental loss coverage and umbrella liability coverage on all of our initial hotels and earthquake, wind, flood and hurricane coverage on hotels in areas where we believe such coverage is warranted, in each case with limits of liability that we deem adequate. Similarly, we will be insured against the risk of direct physical damage in amounts we believe to be adequate to reimburse us, on a replacement basis, for costs incurred to repair or rebuild each hotel, including loss of rental income during the reconstruction period. We will select policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice. We will not carry insurance for generally uninsured losses, including, but not limited to losses caused by riots, war or acts of God. In the opinion of our management, our initial hotels will be adequately insured upon completion of this offering and our formation transactions.

Competition

The U.S. lodging industry is highly competitive. Our hotels compete with other hotels for guests in each of their markets on the basis of several factors, including, among others, location, quality of accommodations, convenience, brand affiliation, room rates, service levels and amenities, and level of customer service. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels operated under premium brands in the focused-service and full-service segments. We believe that hotels, such as our initial hotels, that are affiliated with leading national brands, such as the Marriott, Hilton or Hyatt brands, will enjoy the competitive advantages associated with opearting under such brands. Increased competition could harm our occupancy and revenues and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may materially and adversely affect our operating results and liquidity.

We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources and access to capital than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us and decrease the attractiveness of the terms on which we may acquire our targeted hotel investments, including the cost thereof.

Third-Party Agreements

Hotel Management Agreements

Each of our initial hotels is operated pursuant to a hotel management agreement with one of 15 independent hotel management companies. Each hotel management company receives a base management fee and is also eligible to receive an incentive management fee if hotel operating income, as defined in the respective management agreement, exceeds certain thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after we have received a priority return on our investment in the hotel. See "Our Principal Agreements—Hotel Management Agreements," for more information related to our hotel management agreements.

Franchise Agreements

All of our initial hotels, except for four Marriott-managed hotels and two independent hotels, operate under franchise agreements that allow such hotels to operate under their respective brands, such as Marriott or Hilton. Pursuant to the franchise agreements, we pay a royalty fee, plus additional fees for marketing, central reservation systems and other franchisor costs. Certain hotels are also charged a royalty fee based on food and beverage revenues. See "Our Principal Agreements—Franchise Agreements," for more information related to our franchise agreements. The Marriott-managed initial hotels are subject to management agreements with Marriott that allow such hotels to operate under the Marriott brand name and provide benefits typically associated with franchise agreements, including, among others, the use of Marriott's reservation system and guest loyalty program.

Ground Leases

Six of our initial hotels are subject to ground leases that cover all of the land underlying the respective hotel. See "Our Principal Agreements—Ground Leases," for more information related to our ground leases.

Our Indebtedness

We intend to use substantially all of the net proceeds of this offering to repay approximately $ million in existing indebtedness as part of our formation transactions (based on outstanding principal balances at December 31, 2010). For more information regarding the indebtedness expected to be outstanding upon completion of this offering and our formation transactions (including the application of the net proceeds of this offering as set forth under "Use of Proceeds"), see "See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness to be Outstanding after this Offering."

Wachovia Loans

Upon the completion of this offering and our formation transactions, we expect to assume a pool of loans, which we refer to as the Wachovia loans, between various property-owning subsidiaries of Fund II (as borrowers) and Wachovia Bank, National Association (as lender), which matures in July 2016. The Wachovia loans, which had an outstanding principal balance of approximately $499.1 million at December 31, 2010, are secured on a cross-collateralized basis by 43 of our initial hotels and are subject to mortgages or deeds of trusts containing substantially the same terms. The pool of Wachovia loans is split into eight tranches, with each tranche having substantially the same terms and bearing interest at a fixed rate of 6.29% per annum. Since January 2010, the Wachovia loans have begun to amortize.

The Wachovia loans include customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due; breach of covenants; breach of representations and warranties; insolvency proceedings; and the occurrence of defaults beyond applicable notice and grace periods under any applicable franchise agreements or operating leases. Upon the occurrence of an event of default, the lender may, at its option, declare all outstanding principal and accrued interest immediately due and payable and exercise all rights and remedies available to it with respect to the 43 hotels securing the applicable Wachovia loans.

The foregoing summary of the Wachovia loans does not purport to be complete and is qualified in its entirety by reference to the terms contained in the form of the Wachovia mortgage and note, copies of which are filed as exhibits to this registration statement of which this prospectus is a part.

Revolving Credit Facility

Upon completion of this offering, we expect to enter into a three-year, $300 million unsecured revolving credit facility. We expect that this facility will include an "accordion feature," which will provide that we may increase the size of this facility by up to $150 million if new or additional commitments are obtained. In addition, we expect that this facility will include a one-year extension term that will be exercisable at our option subject to the payment of an extension fee and certain other customary conditions. We expect that an affiliate of Wells Fargo Securities, LLC will act as administrative agent, affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC will act as co-lead arrangers, an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated will act as syndication agent, and affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC (together with other financial institutions) will act as lenders under this facility. We intend to use this facility to fund acquisitions, redevelopments and capital expenditures and general corporate purposes.

The amount available for us to borrow from time to time under this facility will be limited according to a borrowing base valuation of unencumbered properties owned by subsidiaries of our operating partnership that guarantee the facility. We expect that such value will be determined according to book value through June 30, 2012, and thereafter will be based on the net operating income of such properties.

Amounts outstanding under this facility will bear interest at a floating rate equal to, at our election, LIBOR or a base rate, plus a spread that we expect will range from 2.25% to 3.25% (subject to increase to 4.00% under certain circumstances) depending upon our leverage ratio. We expect that we will also be required to pay a commitment fee to the lenders assessed on the unused portion of this facility.

Our ability to borrow under this facility will be subject to our ongoing compliance with a number of customary affirmative and negative covenants, including limitations on liens, mergers, consolidations, investments, restricted payments, and affiliate transactions, as well as financial covenants, including:

- a maximum leverage ratio (defined as total indebtedness to consolidated EBITDA) of 6.50 to 1.00 until March 31, 2012 and 6.00 to 1.00 thereafter, with a right for the leverage ratio to exceed 6.50 to 1.00 (but not to exceed 7.00 to 1.00) for one fiscal quarter only at any time from the date of the closing of the credit facility through June 30, 2012 (in which event the spread on our borrowings will increase to 4.00% until the leverage ratio no longer exceeds 6.50 to 1.00);
- a minimum fixed charge coverage ratio (defined as consolidated EBITDA, subject to certain adjustments, to consolidated fixed charges) of 1.40 to 1.00 until June 30, 2012 and 1.50 to 1.00 thereafter;
- a maximum ratio of our consolidated secured indebtedness to our total asset value not to exceed 55% through December 31, 2012, 50% from March 31, 2013 through December 31, 2013 and 45% thereafter;
- a maximum ratio of our consolidated secured recourse indebtedness to our total asset value of 10%;
- a maximum ratio of our consolidated unsecured indebtedness to the value of the borrowing base properties of 55%;
- a minimum unsecured interest coverage ratio (measured as the ratio of net operating income of the borrowing base properties, to interest expense on our consolidated unsecured indebtedness) of 2.00 to 1.00;
- a minimum tangible net worth equal to the sum of 75% of our tangible net worth at the closing of the facility plus an amount equal to 75% of the proceeds of any subsequent issuances of common shares; and
- a maximum distribution payout ratio of the greater of (1) 95% of our FFO or (2) the amount required for us to qualify and maintain our status as a REIT.

The facility will include customary events of default, and the occurrence of an event of default will permit the lenders to terminate commitments to lend under the facility and accelerate payment of all amounts outstanding thereunder. If a default occurs and is continuing, we will be precluded from making distributions on our common shares (other than those required to allow us to qualify and maintain our status as a REIT, so long as such default does not arise from a payment default or event of insolvency).

Our operating partnership will be the borrower under this facility and borrowings under the facility will be guaranteed by us and certain of our subsidiaries. We will have the option to remove properties from the pool of borrowing base properties and to add different properties which meet pre-established criteria.

We have not received commitments from the lenders for the entire amount of this facility and there can be no assurance that we will enter into definitive documentation with regard to this facility upon the terms described herein or at all.

Term Loan

Upon completion of this offering and our formation transactions, we expect to assume an unsecured term loan between a subsidiary of Fund III (as borrower), Wells Fargo Bank, National Association (as administrative agent) and the various lenders party thereto, pursuant to which we borrowed an aggregate principal amount of $140 million. The term loan, which matures on September 30, 2011 and requires monthly interest-only payments until the maturity date, bears interest at LIBOR plus 4.25%. The term of the loan may be extended for two additional six-month periods at our option (subject to our prior satisfaction of certain conditions, including maintenance of specified debt service coverage ratios and advance notice of our intention to exercise the extension). As of the date of this prospectus, the outstanding balance and the effective interest rate (giving effect to a LIBOR floor) of the term loan was $140 million and 5.25% per annum, respectively.

Under the term loan, we are subject to various negative covenants, including, among others, covenants that restrict our ability to incur additional indebtedness, declare or make distributions during an event of default or engage in or permit a change in control. We also are required to maintain a certain number of unencumbered hotels in the borrowing base and are subject to restrictions on our ability to sell certain of our initial hotels. In addition, we are required to comply with the following financial covenants under the term loan:

- a maximum leverage ratio (defined as total indebtedness to total asset value) of 0.525:1.00;
- a minimum fixed charge coverage ratio (defined as consolidated EBITDA for a period of the most recent 12 consecutive months to consolidated fixed charges) of 1.50:1.00; and
- a minimum net worth at any time of at least $500 million.

As of the date of this prospectus, we were in compliance with all of the foregoing financial covenants. On a pro forma basis (after giving effect to the application of the net proceeds of this offering as set forth under "Use of Proceeds") as of December 31, 2010, our leverage ratio, fixed charge coverage ratio and net worth were 0.43:1.00, 2.00:1:00 and approximately $1.7 billion, respectively.

The term loan also includes customary events of default, in certain cases subject to reasonable and customary periods to cure, including but not limited to: failure to make payments when due; breach of covenants; breach of representations and warranties; insolvency proceedings; and certain judgments. The occurrence of an event of default may result in the termination of the term loan or acceleration of our repayment obligations, and would limit our ability to make distributions to our shareholders. In addition, to the extent an event of default exists and is continuing under the term loan, we will be obligated to pay a default rate equal to the then-current interest rate applicable to our borrowings under the term loan plus 5%.

We expect that the term loan, including financial covenants contained therein, will be amended to be consistent with the terms of the anticipated three-year, $300 million unsecured unsecured revolving credit facility described in "—Revolving Credit Facility" above.

Employees

Upon completion of this offering and our formation transactions, we expect initially to employ approximately 50 persons, all of whom are current employees or principals of RLJ Development.

Corporate Information

Our principal executive offices are located at 3 Bethesda Metro Center, Suite 1000, Bethesda, MD 20814. Our telephone number is (301) 280-7777. We have reserved the website located at www. . The information that will be found on or accessible through our website is not incorporated into, and does not form a part of, this prospectus or any other report or document that we file with or furnish to the SEC. We have included our website address in this prospectus as an inactive textual reference and do not intend it to be an active link to our website.

OUR PRINCIPAL AGREEMENTS

Hotel Management Agreements

In order to qualify as a REIT, we cannot directly or indirectly operate any of our hotels. We will lease our hotels to TRS lessees, which will in turn engage property managers to manage our hotels. Each of our initial hotels will be operated pursuant to a hotel management agreement with one of 15 independent hotel management companies. Each hotel management company will receive a base management fee and also will be eligible to receive an incentive management fee upon the achievement of certain financial benchmarks set forth in each applicable management agreement. The incentive management fee is generally calculated as a percentage of hotel operating profit after we have received a priority return on our investment in the hotel. WLS, a fully-integrated owner, developer and manager of premium-brand hotels, is the management company for 104 of our initial hotels and the remaining hotels are managed by 14 other hotel management companies located in the United States. Below is a summary of the principal terms of the hotel management agreements with WLS and a general overview of our non-WLS hotel management agreements.

WLS Hotel Management Agreements

Our TRS lessees, as lessees of the respective hotels, have entered into hotel management agreements with WLS for 104 of our initial hotels. This summary is qualified in its entirety by reference to the form of the WLS hotel management agreement filed as an exhibit to this registration statement of which this prospectus is a part.

Term

Ninety-nine of our WLS hotel management agreement contain initial terms of twenty years (with an average remaining term of approximately 16 years) and are subject to two automatic renewal terms of ten years each, while the remaining five WLS hotel management agreements contain initial terms of ten years (with an average remaining term of approximately seven years) and are subject to two automatic renewal terms of five years each.

Amounts Payable under our WLS Hotel Management Agreements

Under the WLS hotel management agreements, WLS receives a base management fee and, if certain financial thresholds are met or exceeded, an incentive management fee. The base management fee ranges between 3.0% and 3.5% of gross hotel revenues for the applicable hotel. Gross hotel revenue is calculated as all hotel revenue before subtracting expenses. The incentive management fee, which is calculated on a per hotel basis, is 15% of operating profit (as defined in the applicable management agreements) remaining after we receive an annual payment equal to 11% of our total capital investment, including debt, in the applicable hotels. We also pay certain computer support and accounting service fees to WLS, as reflected in each hotel management agreement.

Termination Events

Performance Termination. We have structured our WLS management agreements to align our interests with those of WLS by providing us with a right to terminate a WLS management agreement if WLS fails to achieve certain criteria relating to the performance of a hotel under WLS management, as measured with respect to any two consecutive fiscal years. We may initiate a performance termination if, during any two consecutive year period, (1) an independent hotel consulting expert, agreed to by both WLS and us, determines that the operating profit of the affected hotel is less than the operating profit of comparable hotels as determined by the independent hotel consulting expert, and (2) the RevPAR penetration index fails to exceed a specified RevPAR penetration index threshold, as set forth in the applicable management agreement. WLS has the right, which can be exercised no more than three times per hotel, to avoid a performance termination by paying an amount equal to the amount that the operating profit fell below the annual operating budgets for the relevant performance

termination period, as reflected in each WLS management agreement, or by agreeing to offset the operating budget difference against future management fees due to WLS.

Early Termination for Casualty/Condemnation or Cause. Subject to certain qualifications and applicable cure periods, the hotel management agreements are generally terminable by either party upon material casualty or condemnation of the hotel or the occurrence of certain customary events of default, including, among others: the bankruptcy or insolvency of either party; the failure of either party to make a payment when due, and failure to cure such non-payment after due notice; failure by us to provide WLS with sufficient working capital to operate the hotel after due notice; breach by either party of covenants or obligations under a WLS hotel management agreement; and failure by us to complete work approved or required under the terms of the hotel's franchise agreement and the applicable WLS management agreement.

If an event of default occurs and continues beyond the grace period set forth in the WLS hotel management agreement, the non-defaulting party generally has, among other remedies, the option of terminating the applicable hotel management agreement, upon at least 30 days' written notice to the other party.

Early Termination by WLS—Liquidated Damages. In the event that WLS elects to terminate a WLS hotel management agreement due to an event of default by us, WLS may elect to recover a termination fee, as liquidated damages, equal to 2.5 times the actual base management fee and incentive management fee earned by WLS under that hotel management agreement in the fiscal year immediately preceding the fiscal year in which such termination occurred.

Sale of a Hotel

Each WLS hotel management agreement provides that we cannot sell the applicable hotel to any unrelated third party or engage in certain change of control actions (1) if we are in default under the hotel management agreement or (2) with or to a person or entity that is known in the community as being of bad moral character or has been convicted of a felony or is in control of or controlled by persons convicted of a felony or would be in violation of any franchise agreement requirements applicable to us. Each WLS hotel management agreement further requires that any future owner of the applicable hotel, at the option of WLS, assume the WLS hotel management agreement or enter into a new WLS hotel management agreement for such hotel.

Other Hotel Management Agreements

Thirty-six of our initial hotels are managed by 14 hotel management companies other than WLS. Each of these hotels is subject to a hotel management agreement that contains customary terms and conditions that generally are similar to the provisions found in the WLS hotel management agreements described above. The hotel management agreements generally have initial terms that range from one to 10 years, and some provide for one or two automatic extension periods ranging from five to 10 years. In addition, each hotel management company receives a base management fee ranging from 2.5% to 7% of gross hotel revenues and an incentive management fee ranging from 10% to 25% of available cash flow (or other similar metric) as set forth in the applicable management agreement, calculated on a per hotel basis, generally equal to the operating profit of the hotel after deducting a priority return to us based upon a percentage of our total capital investment in the hotels. Each of the non-WLS hotel management agreements also provides us with a right to terminate such management agreement if the hotel management company fails to reach certain performance targets (as provided in the applicable management agreement) or provides us with a right to terminate the management agreement in our sole and absolute discretion. In addition, certain management agreements give us the right to terminate the management agreement upon the sale of the hotel or for any reason upon payment of a stipulated termination fee. The performance targets vary, but generally provide us with the right to terminate the applicable hotel management agreement if the operating profit of the hotel is less than 90% to 95% of the budget targets set forth pursuant to such management agreement and/or the RevPAR is less than

90% to 115% of comparable hotels. The hotel management agreements are also generally terminable by either party upon material casualty or condemnation of the hotel or the occurrence of certain customary events of default.

Franchise Agreements

We intend to assume the existing franchise agreements (or, in the case of Marriott, assume existing franchise agreements subject to certain amendments) with each of the franchisors with which each of our initial hotels are currently affiliated or, in the case of Hilton, enter into new franchise agreements. As of the date of this prospectus, 95, 25 and 6 of our initial hotels operate under franchise agreements with Marriott, Hilton and Hyatt, respectively. Of the remaining 14 of our initial hotels, 8 hotels operate under existing franchise agreements with brands other than Marriott, Hilton or Hyatt, 2 hotels are not subject to a franchise agreement and 4 hotels receive the benefits of a franchise agreement pursuant to management agreements with Marriott. Following the completion of this offering, we expect to brand or re-brand 5 of these 14 hotels into brands affiliated with Hilton or InterContinental, which will result in us entering into new franchise agreements with respect to each of these hotels.

Franchisors provide a variety of benefits to franchisees, including centralized reservation systems, national advertising, marketing programs and publicity designed to increase brand awareness, training of personnel and maintenance of operational quality at hotels across the brand system. The franchise agreements generally specify management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which our TRS lessees, as the franchisees, must comply. The franchise agreements obligate our TRS lessees to comply with the franchisors' standards and requirements, including training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by the TRS lessee, display of signage and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. Each of the existing franchise agreements for our initial hotels require that we pay a royalty fee of between 3% and 6% of the gross room revenue of the hotels and, for certain full service hotels, on food and beverage revenue. We also must pay marketing, reservation or other program fees ranging between 0.4% and 4.3% of gross room revenue. In addition, under certain of our franchise agreements, the franchisor may require that we renovate guest rooms and public facilities from time to time to comply with then-current brand standards.

The franchise agreements also provide for termination at the applicable franchisor's option upon the occurrence of certain events, including failure to pay royalties and fees or to perform other obligations under the franchise license, bankruptcy and abandonment of the franchise or a change in control. The TRS lessee that is the franchisee is responsible for making all payments under the applicable franchise agreement to the franchisor; however we are required to guarantee the obligations under each of the franchise agreements. In addition, many of our existing franchise agreements provide the franchisor with a right of first offer in the event of certain sales or transfers of a hotel and provide that the franchisor has the right to approve any change in the hotel management company engaged to manage the hotel.

TRS Leases

In order for us to qualify as a REIT, neither our company nor any of our subsidiaries, including the operating partnership, may directly or indirectly operate our initial hotels. Subsidiaries of our operating partnership, as lessors, lease our initial hotels to our TRS lessees, which, in turn, are parties to the existing hotel management agreements with third-party hotel management companies for each of our initial hotels. The TRS leases for our initial hotels contain the provisions described below. We intend that leases with respect to hotels acquired in the future will contain substantially similar provisions to those described below; however, we may, in our discretion, alter any of these provisions with respect to any particular lease.

Lease Terms

Leases have initial terms that range from three to five years and a majority of the leases can be renewed by our TRS lessees for three successive five-year renewal terms unless the lessee is in default at the expiration of the then-current term. In addition, our TRS leases are subject to early termination by us in the event that we sell the hotel to an unaffiliated party, a change in control occurs or applicable provisions of the Code are amended to permit us to operate our hotels. Our leases are also subject to early termination upon the occurrence of certain events of default and/or other contingencies described in the lease.

Amounts Payable under the Leases

During the term of each TRS lease, our TRS lessees are obligated to pay us a fixed annual base rent plus a percentage rent and certain other additional charges that our TRS lessees agree to pay under the terms of the respective TRS lease. Percentage rent is calculated based on revenues generated from guest rooms, food and beverage sales, and certain other sources, including meeting rooms and movie rentals. Base rent is paid to us monthly, any percentage rent is paid to us quarterly, and any additional charges are paid to us when due.

Other than certain capital expenditures for the building and improvements, which are obligations of the lessor, the leases require our TRS lessees to pay rent, all costs and expenses, franchise fees, ground rent (if applicable), property taxes and certain insurance, and all utility and other charges incurred in the operation of the hotels they lease. The leases also provide for rent reductions and abatements in the event of damage to, or destruction or a partial taking of, any hotel.

Maintenance and Modifications

Under each TRS lease, the TRS lessee may, at its expense, make additions, modifications or improvements to the hotel that it deems desirable and that we approve. In addition, our TRS lessees are required, at their expense, to maintain the hotels in good order and repair, except for ordinary wear and tear, and to make repairs that may be necessary and appropriate to keep the hotel in good order and repair. Under the TRS lease, we are responsible for maintaining, at our cost, any underground utilities or structural elements, including exterior walls and the roof of the hotel (excluding, among other things, windows and mechanical, electrical and plumbing systems). Each TRS lessee when and as required to meet the standards of the applicable hotel management agreement, any applicable hotel franchise agreement or to satisfy the requirements of any lender, must establish an FF&E reserve in an amount equal to up to 5% of room revenue for the purpose of periodically repairing, replacing or refurbishing furnishings and equipment.

Events of Default

Events of default under each of the leases include, among others: the failure by a TRS lessee to pay rent when due; the breach by a TRS lessee of a covenant, condition or term under the lease, subject to the applicable cure period; the bankruptcy or insolvency of a TRS lessee; cessation of operations by a TRS lessee on the leased hotel for more than 30 days, except as a result of damage, destruction, or a partial or complete condemnation; or the default by a TRS lessee under a franchise agreement subject to any applicable cure period.

Termination of Leases on Disposition of the Hotels or Change of Control

In the event that we sell a hotel to a non-affiliate or a change of control occurs, we generally have the right to terminate the lease by paying the applicable TRS lessee a termination fee to be governed by the terms and conditions of the lease.

Ground Leases

Six of our initial hotels are subject to ground leases that cover the land underlying the respective hotels.

- The Residence Inn Chicago Oak Brook is subject to a ground lease with an initial term that expires on March 6, 2100. During the initial term of the ground lease, the total rent is $1.56 million, which was paid in a lump sum upon commencement of the ground lease in 2001. After the initial term, we may extend the ground lease for an additional renewal term of 99 years for $1. Under certain circumstances set forth in the ground lease, we have the option to acquire the land underlying the Residence Inn Chicago Oak Brook.

- The Courtyard Austin Downtown/Convention Center and the Residence Inn Austin Downtown/Convention Center, which are situated on the same parcel of land, are subject to a single ground lease with a term that expires on November 14, 2100. In addition to an aggregate base monthly rent of $33,334, we must pay annual percentage rent in the amount by which 3.25% of the total amount of rents for all guest rooms, meeting rooms or conference room exceeds total annual base rent. Under certain circumstances set forth in the ground lease, we will need to obtain the consent of the ground lessor prior to transferring our interest in the ground lease.

- The Hilton Garden Inn Bloomington is subject to a ground lease with an initial term that expires on January 30, 2053. During the initial term of the ground lease, the total rent is $490, payable in 10 equal annual installments of $49 each, commencing on December 2, 2024. After expiration of the initial term, the ground lease will be automatically extended for five successive 10-year renewal terms unless we give notice of non-renewal or there is an uncured event of default (as defined in the ground lease) at the expiration of the then-current term. Under certain circumstances set forth in the ground lease, we will need to obtain the consent of the ground lessor prior to transferring our interest in the ground lease. The Hilton Garden Inn Bloomington is also subject to an agreement to lease parking spaces with an initial term extending out to 2033. The agreement to lease parking spaces may be extended if certain events occur. The agreement provides for a monthly rental payment based on city ordinance rates (at December 31, 2010 the rate was approximately $2 per month) and the number of parking spaces reserved for the exclusive use of the hotel, plus amounts based on actual usage in excess of the reserved spaces.

- The Louisville Marriott Downtown is subject to a ground lease with an initial term that expires on June 25, 2053. The annual rent for the initial term of the ground lease is $1 plus a profits participation payment equal to 25% of the amount that net income during any year during the lease term exceeds a specified investment return as calculated based on the terms of the ground lease. After expiration of the initial term, the ground lease will be automatically extended for four successive 25-year terms unless we give notice of non-renewal or there is an uncured event of default (as defined in the ground lease) at the expiration of the then-current term. Under certain circumstances set forth in the ground lease, we will need to obtain the consent of the ground lessor prior to transferring our interest in the ground lease.

- The Hampton Inn Garden City is subject to a sublease of a ground lease with a term that expires on December 31, 2016. The sublease is associated with an agreement for payment in lieu of taxes and will revert to fee simple ownership at the end of the ground lease. The annual rent for the term of the sublease is $1. In addition, the Hampton Inn Garden City is also subject to a sub-sublease of a ground lease with a term that expires on December 31, 2016. The annual rent for the term of the sub-sublease is $1 plus an annual compliance fee of $1,000. Under certain circumstances set forth in the sub-sublease, we will need to obtain the consent of the ground sub-sublessor prior to transferring our interest in the sub-sublease.

The foregoing ground leases and ground sub-leases generally require us to pay all charges, costs, expenses, assessments and liabilities relating to ownership and operation of the properties, including real property taxes and utilities, and to obtain and maintain insurance covering the subject property.

MANAGEMENT

Our Trustees, Trustee Nominees, Executive Officers and Key Employees

Upon completion of this offering, our board of trustees will consist of seven members, a majority of whom are independent within the meaning of the corporate governance listing standards of the NYSE. Pursuant to our organizational documents, each of our trustees is elected by our shareholders to serve until the next annual meeting of our shareholders and until his or her successor is duly elected and qualifies. Our bylaws provide that a majority of the entire board of trustees may at any time increase or decrease the number of trustees. However, unless our declaration of trust and bylaws are amended, the number of trustees may never be less than two nor more than 15.

The following table sets forth certain information concerning our executive officers and trustees upon completion of this offering:

Name	Age	Position
Robert L. Johnson	65	Executive Chairman of the Board
Thomas J. Baltimore, Jr.	47	President, Chief Executive Officer and Trustee
Leslie D. Hale	39	Chief Financial Officer
Ross H. Bierkan	51	Chief Investment Officer
Evan Bayh	55	Trustee Nominee*
Nathaniel A. Davis	57	Trustee Nominee*
Robert M. La Forgia	52	Trustee Nominee*
Glenda G. McNeal	50	Trustee Nominee*
Joseph Ryan	69	Trustee Nominee*

* Independent within the meaning of the NYSE listing standards. It is expected that this individual will become a trustee immediately upon completion of this offering.

Biographical Summaries of Executive Officers and Trustees

Robert L. Johnson will serve as the Executive Chairman of our board of trustees. Prior to the formation of our company, Mr. Johnson co-founded and served as the chairman of RLJ Development and The RLJ Companies, which owns or holds interests in a diverse portfolio of companies in the banking, private equity, real estate, film production, gaming and automobile dealership industries. Prior to co-founding RLJ Development in 2000, he was founder and chairman of Black Entertainment Television, or BET, which was acquired in 2001 by Viacom Inc., a media-entertainment holding company. Mr. Johnson continued to serve as chief executive officer of BET until 2006. He currently serves on the boards of directors of KB Home (NYSE: KBH), the Lowe's Companies, Inc. (NYSE: LOW) and Strayer Education, Inc. (NASDAQ: STRA). He was a director of Hilton Hotels Corporation, a global lodging company, and US Airways Group, Inc. until 2006 and 2005, respectively. Mr. Johnson received his Bachelor of Arts degree from the University of Illinois and his Masters of Public Administration from Princeton University.

Our board of trustees determined that Mr. Johnson should serve on our board of trustees based on his experience as a successful business leader and entrepreneur, as well as his experience in a number of critical areas, including real estate, finance, brand development and multicultural marketing.

Thomas J. Baltimore Jr. will serve as the President and Chief Executive Officer of our company and a member of our board of trustees. Prior to the formation of our company, Mr. Baltimore co-founded RLJ Development and has served as its president since 2000. During this time period, RLJ Development raised and invested more than $2 billion in equity. Previously, Mr. Baltimore served as vice president of gaming acquisitions of Hilton Hotels Corporation from 1997 to 1998 and later as vice president of development and finance from 1999 to 2000. He also served in various management

positions with Marriott Corporation and Host Marriott Services Corporation, including vice president of business development from 1994 to 1996. Mr. Baltimore currently serves on the boards of directors of Prudential Financial, Inc. (NYSE: PRU), Duke Realty Corporation (NYSE: DRE) and Integra Life Services Company (NASDAQ: IART). Mr. Baltimore received his Bachelor of Science degree and his Masters of Business Administration from the University of Virginia.

Our board of trustees determined that Mr. Baltimore should serve as a trustee based on his extensive knowledge of our company and his experience and relationships in the lodging industry.

Leslie D. Hale will serve as the Chief Financial Officer of our company. Ms. Hale has served as chief financial officer and senior vice president of real estate and finance of RLJ Development since 2007. Prior to that, she was the vice president of real estate and finance for RLJ Development from 2006 to September 2007 and director of real estate and finance until her 2006 promotion. In these positions, Ms. Hale was responsible for the finance, tax, treasury and portfolio management functions as well as executing all real estate transactions. From 2002 to 2005, she held several positions within the global financial services division of General Electric Corp. including as a vice president in the business development group of GE Commercial Finance, and as an associate director in the GE Real Estate strategic capital group. Prior to that, she was an investment banker at Goldman, Sachs & Co. Ms. Hale received her Bachelor of Business Administration degree from Howard University and her Masters of Business Administration from Harvard University.

Ross H. Bierkan will serve as the Chief Investment Officer of our company. Mr. Bierkan has served as a principal and executive vice president of RLJ Development since 2000. In this capacity he has been responsible for overseeing all real estate acquisitions. Previously, Mr. Bierkan was a co-founder of The Plasencia Group, a hospitality transaction and consulting group, and from 1993 to 2000 served as its vice president, with responsibility for providing market studies, property analyses and investment sales for institutional hotel owners. Before co-founding The Plasencia Group, Mr. Bierkan worked with Grubb and Ellis Real Estate, a commercial real estate brokerage firm. From 1982 to 1988, he held various operational and sales management positions for Guest Quarters Hotels (now the Doubletree Guest Suites). Mr. Bierkan also serves on the advisory boards for Springhill Suites by Marriott and Hyatt Summerfield Suites. Mr. Bierkan received his Bachelor of Arts degree from Duke University.

Biographical Summaries of Trustee Nominees

Evan Bayh is one of our trustee nominees and will serve as chairman of our nominating and corporate governance committee. Since 2010, Senator Bayh has been a partner at McGuireWoods LLC, a global diversified law firm, and a senior advisor at Apollo Global Management, a leading global alternative asset management firm. From 1998 through 2010, Senator Bayh was a member of the United States Senate, representing the state of Indiana. He served on six Committees—Banking, Housing and Urban Affairs; Armed Services; Energy and Natural Resources; the Select Committee on Intelligence; Small Business and Entrepreneurship; and the Special Committee on Aging. He also chaired two subcommittees. From 1988 until 1997, Senator Bayh served as the Governor of Indiana. Prior to this, he was elected to statewide office as the Indiana Secretary of State. Senator Bayh received a Bachelors degree in Business Economics from Indiana University and a Juris Doctor from the University of Virginia.

Our board has determined that Senator Bayh's experience as a former United States Senator and former Governor of Indiana, in addition to his breadth of management experience, adds valuable expertise to the board, especially with respect to regulatory and governance issues.

Nathaniel A. Davis is one of our trustee nominees and will serve as chairman of our compensation committee. Mr. Davis has served as managing director of RANDD Advisory Group, a business consulting group that advises venture capital, media, and technology firms and provides due diligence, business process improvement, sales process improvement, management development and business plan

development services since 2003. From 2006 through 2008, Mr. Davis served as chief executive officer and president of XM Satellite Radio, a leading broadcaster of satellite radio. He also was a member of the XM Satellite Radio board of directors from 1999 until 2008. Mr. Davis served as executive in residence of Columbia Capital, a venture capital franchise, from 2003 until 2006. Prior to this, Mr. Davis served as executive vice president, network and technical service of Nextel Communications; as chief financial officer of MCI Telecommunications U.S.; and as president and chief operating officer of MCI Metro. Mr. Davis currently is a director of K12 Inc. (NYSE: LRN), an online educational services provider and Earthlink Communications, Inc. (NASDAQ: ELNK), an Internet service provider. He previously was a board member of Charter Communications, a cable television operator. Mr. Davis received a Bachelors of Science degree in Engineering from the Stevens Institute of Technology, a Masters of Science in Computer Science from the University of Pennsylvania and a Masters of Business Administration from the Wharton School of Business, University of Pennsylvania.

Our board of trustees has determined that Mr. Davis should serve on the board based on his extensive financial, operational and entrepreneurial experience. We believe that Mr. Davis also qualifies as an "audit committee financial expert."

Robert M. La Forgia is one of our trustee nominees and will serve as the chairman of our audit committee. Currently, Mr. La Forgia is principal of Apertor Hospitality, LLC, a national advisory and asset management services firm specializing in the hospitality and gaming industries, which he founded in August 2009. In March 2008, Mr. La Forgia joined The Atalon Group, a boutique turnaround management and advisory firm specializing in troubled real estate situations and served as executive vice president—finance of certain Atalon Group subsidiaries until July 2010. Prior to this, Mr. La Forgia held a number of leadership positions during his 26-year tenure at Hilton Hotels Corporation (currently Hilton Worldwide), a global hospitality firm. Mr. La Forgia served as the chief financial officer (and chief accounting officer) of Hilton Hotels Corporation from 2004 through 2008, first as a senior vice president and subsequently as executive vice president. From 1996 through 2004, he was senior vice president and controller of Hilton, and prior to this, he held a number of management positions within Hilton's corporate finance function. Mr. La Forgia received a Bachelor of Science degree in Accounting from Providence College and a Masters of Business Administration from the Anderson School of Management at the University of California, Los Angeles.

Our board of trustees has determined that Mr. La Forgia should serve on the board based on his significant experience in the critical areas of accounting, finance, real estate, capital markets and hospitality, primarily at a publicly-held company, and that he will qualify as an "audit committee financial expert."

Glenda G. McNeal is one of our trustee nominees. Since 1989, Ms. McNeal has worked for the American Express Company (NYSE: AXP), a global payments, network, credit card and travel services company, where she has served since 2010 as its executive vice president and general manager of the Global Client Group in Merchant Services Americas. Ms. McNeal was employed by Salomon Brothers, Inc. from 1987 until 1989 and began her career with Arthur Andersen, LLP in 1982. She serves on the board of directors of United States Steel Corporation (NYSE: X), an integrated steel producer with major production operations in the United States, Canada and Central Europe, and is a trustee of Dillard University, where she serves as vice chairperson of the board of trustees and chairperson of its Governance and Nomination Committee. She also is a member of the PepsiCo Ethnic Advisory Board and the board of the Ralph Lauren Center for Cancer Care and Prevention. Ms. McNeal received a Bachelor of Arts degree in Accounting from Dillard University and a Masters of Business Administration in Finance from the Wharton School of Business, University of Pennsylvania.

Our board of trustees has determined that Ms. McNeal should serve on our board based on her background in financial management, finance, accounting and travel-related businesses.

Joseph Ryan is one of our trustee nominees and will serve as our lead independent trustee. Since 2007, Mr. Ryan has served as chairman and chief executive officer of both Ryan Investments, LLC, a private firm with investments in hospitality, private banking, and technology start-ups, and Joseph Ryan & Associates, a company offering mediation, arbitration and consulting services for companies and professional services organizations. Prior to this, he was a partner in the business transactions group at Venable, LLP, a law firm based in Washington, DC. From 1994 through 2006, Mr. Ryan served as executive vice president and general counsel for Marriott International, Inc., a hotel management and hospitality firm. Before joining Marriott International, Mr. Ryan practiced law for 27 years with the Los Angeles-based law firm of O'Melveny & Myers, where he also served as managing partner. Mr. Ryan received a Bachelor of Arts degree from the University of Washington and his Juris Doctor from the Columbia School of Law.

Our board determined that Mr. Ryan should serve on the board due to his knowledge of and experience in the hospitality industry, expertise in corporate governance and risk assessment and oversight, legal background and general business knowledge.

Corporate Governance Profile

We have structured our corporate governance in a manner we believe aligns our interests with those of our shareholders. Notable features of our corporate governance structure include the following:

- our board of trustees is not staggered, with each of our trustees subject to re-election annually;
- of the seven persons who will serve on our board of trustees, five, or 71%, of our trustees, have been determined by us to be independent for purposes of the NYSE's corporate governance listing standards and Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act;
- we anticipate that at least two of our trustees will qualify as an "audit committee financial expert" as defined by the SEC;
- we have opted out of the business combination and control share acquisition statutes in the MGCL; and
- we do not have a shareholders rights plan.

Our trustees will stay informed about our business by attending meetings of our board of trustees and its committees and through supplemental reports and communications. Our independent trustees will meet regularly in executive sessions without the presence of our corporate officers or non-independent trustees.

Role of Our Board in Risk Oversight

One of the key functions of our board of trustees will be informed oversight of our risk management process. Our board of trustees will administer this oversight function directly, with support from its three standing committees, our audit committee, our nominating and corporate governance committee and our compensation committee, each of which will address risks specific to their respective areas of oversight. For example, our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. Our audit committee also will monitor compliance with legal and regulatory requirements and oversee the performance of our internal audit function. Our nominating and corporate governance committee will monitor the effectiveness of our corporate governance guidelines, including whether they are successful in preventing illegal or improper liability-creating conduct. Our compensation committee will assess and

monitor whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

Our board of trustees and its standing committees also will hear reports from the members of management responsible for the matters considered in order to enable our board of trustees and each committee to understand and discuss risk identification and risk management.

Board Committees

Upon completion of this offering, our board of trustees will establish the three standing committees as noted above. The principal functions of each of these committees, which will consist solely of independent trustees, are briefly described below. Our board of trustees may from time to time establish other committees to facilitate our management.

Audit Committee

Upon completion of this offering, our audit committee will be comprised of Messrs. Davis, La Forgia and Ms. McNeal, with Mr. La Forgia serving as its chairperson. We expect that Mr. La Forgia, the chairperson of our audit committee, and Mr. Davis each will qualify as an "audit committee financial expert" as that term is defined by the applicable SEC regulations and NYSE corporate governance listing standards. We expect that our board of trustees will determine that each audit committee member is "financially literate" as that term is defined by the NYSE corporate governance listing standards. Prior to completion of this offering, we expect to adopt an audit committee charter, which will detail the principal functions of our audit committee, including oversight related to:

- review of all related party transactions in accordance with our related party transactions policy;
- our accounting and financial reporting processes;
- the integrity of our consolidated financial statements and financial reporting process;
- our systems of disclosure controls and procedures and internal control over financial reporting;
- our compliance with financial, legal and regulatory requirements;
- the evaluation of the qualifications, independence and performance of our independent registered public accounting firm;
- the performance of our internal audit function; and
- our overall risk profile.

Our audit committee also will be responsible for engaging an independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, including all audit and non-audit services, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls. Our audit committee also will prepare the audit committee report required by SEC regulations to be included in our annual proxy statement.

Compensation Committee

Upon completion of this offering, our compensation committee will be comprised of Messrs. Bayh, Davis and Ryan, with Mr. Davis serving as its chairperson. Prior to completion of this offering, we

expect to adopt a compensation committee charter, which will detail the principal functions of our compensation committee, including:

- reviewing and approving on an annual basis the corporate goals and objectives relevant to our chief executive officer's compensation, evaluating our chief executive officer's performance in light of such goals and objectives and determining and approving the remuneration of our chief executive officer based on such evaluation;
- reviewing and approving the compensation of our other executive officers;
- reviewing our executive compensation policies and plans;
- implementing and administering our incentive and equity-based compensation plans;
- determining the number of shares underlying, and the terms of, share option and restricted share awards to be granted to our trustees, executive officers and other employees pursuant to these plans;
- assisting management in complying with our proxy statement and annual report disclosure requirements;
- producing a report on executive compensation to be included in our annual proxy statement; and
- reviewing, evaluating and recommending changes, if appropriate, to the remuneration for trustees.

Nominating and Corporate Governance Committee

Upon completion of this offering, our nominating and corporate governance committee will be comprised of Messrs. Bayh, Davis, La Forgia and Ryan and Ms. NcNeal, with Senator Bayh serving as its chairperson. Prior to completion of this offering, we expect to adopt a nominating and corporate governance committee charter, which will detail the principal functions of our nominating and corporate governance committee, including:

- identifying and recommending to the full board of trustees qualified candidates for election as trustees and recommending nominees for election as trustees at the annual meeting of shareholders;
- developing and recommending to our board of trustees corporate governance guidelines and implementing and monitoring such guidelines;
- reviewing and making recommendations on matters involving the general operation of our board of trustees, including board size and composition, and committee composition and structure;
- recommending to our board of trustees nominees for each committee of our board of trustees;
- annually facilitating the assessment of our board of trustees' performance as a whole and of the individual trustees, as required by applicable law, regulations and the NYSE corporate governance listing standards; and
- overseeing our board of trustees' evaluation of management.

Code of Business Conduct and Ethics

Upon completion of this offering, our board of trustees will adopt a code of business conduct and ethics that applies to our trustees, executive officers and other employees. Among other matters, our code of business conduct and ethics will be designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and
- accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for our executive officers or trustees will require approval by our nominating and corporate governance committee or another committee of our board of trustees comprised solely of independent trustees, and any such waiver will require prompt disclosure as required by law or NYSE regulations.

Executive Compensation

Compensation Discussion and Analysis

We believe that the primary goal of executive compensation is to align the interests of our executive officers with those of our shareholders in a way that allows us to attract and retain the best executive talent. Our board of trustees has not yet formed our compensation committee. Accordingly, we have not adopted compensation policies with respect to, among other things, setting base salaries, awarding bonuses or making future grants of equity awards to our executive officers. We anticipate that our compensation committee, once formed, will design a compensation program that rewards, among other things, favorable shareholder returns, share appreciation, our company's competitive position within our segment of the real estate industry and each executive officer's long-term career contributions to our company. We expect that compensation incentives designed to further these goals will take the form of annual cash compensation and equity awards, and long-term cash and equity incentives measured by performance targets to be established by our compensation committee. In addition, our compensation committee may determine to make awards to new executive officers in order to attract talented professionals to serve us. We will pay base salaries and annual bonuses and expect to make equity grants under our equity incentive plan to our executive officers, effective upon completion of this offering. These awards under our equity incentive plan will be granted to recognize such individuals' efforts on our behalf in connection with our formation and this offering and to provide a retention element to their compensation. Our "named executive officers" during 2011 are expected to be: Robert L. Johnson, our Executive Chairman; Thomas J. Baltimore, Jr., our President and Chief Executive Officer and a member of our board of trustees; Leslie D. Hale, our Chief Financial Officer; and Ross H. Bierkan, our Chief Investment Officer.

Elements of Executive Officer Compensation

The following is a summary of the elements of and amounts expected to be paid under our compensation plans for fiscal year 2011 to our executive officers. Because we were only recently formed, meaningful individual compensation information is not available for prior periods. In addition, no compensation will be paid by us in 2011 to our executive officers until completion of this offering.

The anticipated annualized 2011 compensation for each of our executive officers listed in the table below was determined based on a review of publicly disclosed compensation packages of executives of other public real estate companies and other information provided to us by the FTI Schonbraun McCann Group, our compensation consultant. Our executive officers will enter into employment agreements upon completion of this offering and will continue to be parties to such employment agreements for their respective terms or until such time as our compensation committee determines in its discretion that revisions to such employment agreements are advisable and our company and the executive officers agree to the proposed revisions.

Annual Base Salary

Base salary will be designed to compensate our executive officers at a fixed level of compensation that serves as a retention tool throughout the executive's career. In determining base salaries, we expect that our compensation committee will consider each executive officer's role and responsibility, unique skills, future potential with our company, salary levels for similar positions in our core markets and internal pay equity.

Annual Cash Bonus

Annual cash bonuses will be designed to incentivize our executive officers at a variable level of compensation based on the performance of both our company and such individual. In connection with our annual cash bonus program, we expect that our compensation committee will determine annual performance criteria that are flexible and that change with the needs of our business. Our annual cash bonus plan will be designed to reward the achievement of specific, pre-established financial and operational objectives.

Equity Awards

We will provide equity awards pursuant to our equity incentive plan. Equity awards will be designed to focus our executive officers on and reward them for achieving our long-term goals and enhancing shareholder value. In determining equity awards, we anticipate that our compensation committee will take into account our company's overall financial performance. The awards expected to be made under our equity incentive plan in 2011 will be granted to recognize such individuals' efforts on our behalf in connection with our formation and this offering, and to provide a retention element to their compensation.

Retirement Savings Opportunities

All full-time employees will be able to participate in a 401(k) Retirement Savings Plan, or 401(k) plan. We intend to provide this plan to help our employees save some amount of their cash compensation for retirement in a tax efficient manner. Under the 401(k) plan, employees will be eligible to defer a portion of their salary, and we, at our discretion, may make a matching contribution and/or a profit-sharing contribution commencing six months after they begin their employment.

Health and Welfare Benefits

We intend to provide to all full-time employees a competitive benefits package, which is expected to include health and welfare benefits, such as medical, dental, short- and long-term disability insurance, and life insurance benefits.

Summary Compensation Table

The following table sets forth on an annualized basis for 2011 the annual base salary and other compensation expected to be payable to each of our named executive officers as of the completion of

this offering. We will enter into an employment agreement with each of our named executive officers that will take effect upon completion of this offering. See "—Executive Compensation—Employment Agreements."

Name and Principal Position	Year	Salary ($)	Target Bonus ($)(1)	Share Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
Robert L. Johnson Executive Chairman	2011							
Thomas J. Baltimore, Jr. President and Chief Executive Officer	2011							
Leslie D. Hale Chief Financial Officer	2011							
Ross H. Bierkan Chief Investment Officer	2011							

(1) Bonuses for 2011 will be awarded by our compensation committee after the end of the 2011 fiscal year based on a combination of individual and corporate performance.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Share Awards: Number of Shares or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Share and Option Awards ($)
		Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)				
Robert L. Johnson	(1)										
Thomas J. Baltimore, Jr.	(1)										
Leslie D. Hale	(1)										
Ross H. Bierkan	(1)										

(1) Each of these awards is expected to be issued upon completion of this offering.

Narrative Discussion of Grants of Plan-Based Awards

In addition to base salary, annual bonus and non-equity incentive compensation, our executive officers and trustees will be entitled to receive additional long-term equity incentive compensation designed to reward the individual's contribution to our formation and this offering, as well as provide an additional retention element for the recipient. Upon completion of this offering, our named executive officers will be granted restricted shares, all subject to vesting requirements. Our non-employee trustees will also be granted restricted shares, all subject to vesting requirements. The aggregate number of restricted shares we intend to grant to our named executive officers and non-employee trustees upon completion of this offering will be and will have an aggregate dollar value based on the midpoint of the price range set forth on the cover page of this prospectus, of $.

Notwithstanding the vesting requirements of the restricted shares, all long-term equity incentive compensation awards will vest upon the death, disability or retirement of the executive officer or, if the executive officer's employment is terminated by us without cause or by the executive officer for good reason.

Equity Incentive Plan

Prior to completion of this offering, our board of trustees is expected to adopt, and our shareholders are expected to approve, our equity incentive plan, for the purpose of attracting and retaining non-employee trustees, employees, officers and service providers for us and for our subsidiaries and affiliates, and to stimulate their efforts toward our continued success, long-term growth and profitability. Our equity incentive plan provides for the grant of options to purchase our common shares, share awards (including restricted shares and restricted share units), share appreciation rights, performance awards and other equity-based awards, including LTIP units, which are convertible on a one-for-one basis with OP units in our operating partnership. We have reserved a total of common shares for issuance pursuant to our equity incentive plan, subject to certain adjustments set forth in our equity incentive plan. This summary is qualified in its entirety by the detailed provisions of our equity incentive plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

Our equity incentive plan provides that no participant in the plan will be permitted to acquire, or will have any right to acquire, common shares thereunder if such acquisition would be prohibited by the share ownership limits contained in our declaration of trust or would impair our status as a REIT.

Administration of our Equity Incentive Plan

Our equity incentive plan will be administered by our compensation committee, and our compensation committee will determine all terms of awards under our equity incentive plan. Each member of our compensation committee that administers our equity incentive plan will be both a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act, and an "outside director" within the meaning of Section 162(m) of the Code. Our compensation committee will also determine who will receive awards under our equity incentive plan, the type of award and its terms and conditions and the number of common shares subject to the award, if the award is equity-based. Our compensation committee will also interpret the provisions of our equity incentive plan. During any period of time in which we do not have a compensation committee, our equity incentive plan will be administered by our board of trustees or another committee appointed by our board of trustees. References below to our compensation committee include a reference to our board of trustees or another committee appointed by our board of trustees for those periods in which our board of trustees or such other committee appointed by our board of trustees is acting.

Eligibility

All of our employees and the employees of our subsidiaries and affiliates, including our operating partnership, are eligible to receive awards under our equity incentive plan. In addition, our non-employee trustees and consultants and advisors who perform services for us and our subsidiaries and affiliates may receive awards under our equity incentive plan. Incentive share options, however, are only available to our employees.

Share Authorization

The number of common shares that may be issued under our equity incentive plan, consisting of authorized but unissued shares, is equal to . In connection with share splits, distributions, recapitalizations and certain other events, our board will make proportionate adjustments that it deems appropriate in the aggregate number of common shares that may be issued under our equity incentive plan and the terms of outstanding awards. If any awards terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised or paid or if any awards are forfeited or expire or otherwise terminate without the delivery of any common shares, the common shares subject to such awards will again be available for purposes of our equity incentive plan.

The maximum number of common shares subject to options or share appreciation rights that can be issued under our equity incentive plan to any person is one million common shares in any single calendar year. The maximum number of common shares that can be issued under our equity incentive plan to any person other than pursuant to an option or share appreciation right is one million common shares in any single calendar year. The maximum amount that may be earned as an annual incentive award or other cash award in any calendar year by any one person is $5 million and the maximum amount that may be earned as a cash-settled performance award or other cash award in respect of a performance period by any one person is $5 million.

No awards under our equity incentive plan were outstanding prior to completion of this offering. The initial awards described above under "—Executive Compensation" will become effective upon completion of this offering.

Share Usage

Common shares that are subject to awards will be counted against the equity incentive plan share limit as one share for every one share subject to the award. The number of shares subject to any share appreciation rights awarded under our equity incentive plan will be counted against the aggregate number of shares available for issuance under our equity incentive plan regardless of the number of shares actually issued to settle the share appreciation right upon exercise.

No Repricing

Except in connection with certain corporate transactions, no amendment or modification may be made to an outstanding share option or share appreciation right, including by replacement with or substitution of another award type, that would reduce the exercise price of the share option or share appreciation right or would replace any share option or share appreciation right with an exercise price above the current market price with cash or another security, in each case without the approval of our shareholders (although appropriate adjustments may be made to outstanding share options and share appreciation rights to achieve compliance with applicable law, including the Code).

Options

Our equity incentive plan authorizes our compensation committee to grant incentive share options (under Section 422 of the Code) and options that do not qualify as incentive share options. The exercise price of each option will be determined by our compensation committee, provided that the price cannot be less than 100% of the fair market value of the common shares on the date on which the option is granted. If we were to grant incentive share options to any 10% shareholder, the exercise price may not be less than 110% of the fair market value of our common shares on the date of grant.

The term of an option cannot exceed 10 years from the date of grant. If we were to grant incentive share options to any 10% shareholder, the term cannot exceed five years from the date of grant. Our compensation committee determines at what time or times each option may be exercised and the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments. The exercisability of options may be accelerated by our compensation committee.

The exercise price for any option or the purchase price for restricted shares is generally payable (1) in cash or cash equivalents, (2) to the extent the award agreement provides, by the surrender of common shares (or attestation of ownership of such shares) with an aggregate fair market value on the date on which the option is exercised, of the exercise or purchase price, (3) with respect to an option only, to the extent the award agreement provides, by payment through a broker in accordance with procedures established by us or (4), to the extent the award agreement provides and/or unless

otherwise specified in an award agreement, any other form permissible by applicable laws, including net exercise and service to us.

Share Awards

Our equity incentive plan also provides for the grant of share awards (which includes restricted shares and share units). An award of common shares may be subject to restrictions on transferability and other restrictions as our compensation committee determines in its sole discretion on the date of grant. The restrictions, if any, may lapse over a specified period of time or through the satisfaction of conditions, in installments or otherwise, as our compensation committee may determine. A participant who receives restricted shares will have all of the rights of a shareholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares, except that our board of trustees may require any dividends to be reinvested in shares. A participant who receives share units will have no such rights. During the period, if any, when share awards are non-transferable or forfeitable, a participant is prohibited from selling, transferring, assigning, pledging, exchanging, hypothecating or otherwise encumbering or disposing of his or her award shares.

Share Appreciation Rights

Our equity incentive plan authorizes our compensation committee to grant share appreciation rights that provide the recipient with the right to receive, upon exercise of the share appreciation right, cash, common shares or a combination of the two. The amount that the recipient will receive upon exercise of the share appreciation right generally will equal the excess of the fair market value of our common shares on the date of exercise over the fair market value of our common shares on the date of grant. Share appreciation rights will become exercisable in accordance with terms determined by our compensation committee. Share appreciation rights may be granted in tandem with an option grant or independently from an option grant. The term of a share appreciation right cannot exceed 10 years from the date of grant.

Performance Awards

Our equity incentive plan also authorizes our compensation committee to grant performance awards. Performance awards represent the participant's right to receive a compensation amount, based on the value of the common shares, if performance goals established by our compensation committee are met. Our compensation committee will determine the applicable performance period, the performance goals and such other conditions that apply to the performance award. Performance goals may relate to our financial performance or the financial performance of our OP units, the participant's performance or such other criteria determined by our compensation committee. If the performance goals are met, performance awards will be paid in cash, common shares or a combination thereof.

Bonuses

Cash performance bonuses payable under our equity incentive plan may be based on the attainment of performance goals that are established by our compensation committee and relate to one or more performance criteria described in our equity incentive plan. Cash performance bonuses must be based upon objectively determinable bonus formulas established in accordance with the terms of our equity incentive plan.

Dividend Equivalents

Our compensation committee may grant dividend equivalents in connection with the grant of any equity-based award. Dividend equivalents may be paid currently or accrued as contingent cash obligations and may be payable in cash, common shares or a combination of the two. Our

compensation committee will determine the terms of any dividend equivalents. No dividend equivalent rights can be granted in tandem with an option or share appreciation right.

Other Equity-Based Awards

Our compensation committee may grant other types of share-based awards under our equity incentive plan, including LTIP units (which are described below). Other equity-based awards are payable in cash, common shares or other equity, or a combination thereof, and may be restricted or unrestricted, as determined by our compensation committee. The terms and conditions that apply to other equity-based awards are determined by our compensation committee.

LTIP units are a special class of OP units in our operating partnership. Each LTIP unit awarded under our equity incentive plan will be equivalent to an award of one share under our equity incentive plan, reducing the number of common shares available for other equity awards on a one-for-one basis. We will not receive a tax deduction with respect to the grant, vesting or conversion of any LTIP unit. The vesting period for any LTIP units, if any, will be determined at the time of issuance. Each LTIP unit, whether vested or not, will receive the same quarterly per unit profit distribution as the other outstanding OP units in our operating partnership, which profit distribution will generally equal the per share distribution on a share. This treatment with respect to quarterly distributions is similar to the expected treatment of our share awards, which will receive full distributions whether vested or not. Initially, each LTIP unit will have a capital account of zero and, therefore, the holder of the LTIP unit would receive nothing if our operating partnership were liquidated immediately after the LTIP unit is awarded. However, the partnership agreement of our operating partnership requires that "book gain" or economic appreciation in our assets realized by our operating partnership, whether as a result of an actual asset sale or upon the revaluation of our assets, as permitted by applicable regulations promulgated by the U.S. Treasury Department, or Treasury Regulations, be allocated first to LTIP units until the capital account per LTIP unit is equal to the capital account per unit of our operating partnership. The applicable Treasury Regulations provide that assets of our operating partnership may be revalued upon specified events, including upon additional capital contributions by us or other partners of our operating partnership or a later issuance of additional LTIP units. Upon equalization of the capital account of the LTIP unit with the per unit capital account of the OP units and full vesting of the LTIP unit, the LTIP unit will be convertible into an OP unit at any time. There is a risk that a LTIP unit will never become convertible because of insufficient gain realization to equalize capital accounts and, therefore, the value that a grantee will realize for a given number of vested LTIP units may be less than the value of an equal number of common shares. See "Description of Our Operating Partnership and Our Partnership Agreement," for a further description of the rights of limited partners in our operating partnership.

Recoupment

Award agreements for awards granted pursuant to our equity incentive plan may be subject to mandatory repayment by the recipient to us of any gain realized by the recipient to the extent the recipient is in violation of or in conflict with certain agreements with us (including but not limited to an employment or non-competition agreement) or upon termination for "cause" as defined in our equity incentive plan, applicable award agreement, or any other agreement between us and the grantee. Reimbursement or forfeiture also applies if we are required to prepare an accounting restatement due to our material noncompliance, as a result of misconduct, with any financial reporting requirement under the securities laws or if an award was earned or vested based on achievement of pre-established performance goals that are later determined, as a result of the accounting restatement, not to have been achieved. Awards are also subject to mandatory repayment to the extent the grantee is or becomes subject to any clawback or recoupment right we may have.

Change in Control

If we experience a change in control in which outstanding awards that are not exercised prior to the change in control will not be assumed or continued by the surviving entity: (1) except for performance awards, all restricted shares, LTIP units and restricted share units will vest and the underlying common shares and all dividend equivalent rights will be delivered immediately before the change in control; or (2) at our board of trustees' discretion, either all options and share appreciation rights will become exercisable 15 days before the change in control and terminate upon the completion of the change in control, or all options, share appreciation rights, restricted shares and share units will be cashed out before the change in control. In the case of performance awards denominated in shares or LTIP units, if more than half of the performance period has lapsed, the awards will be converted into restricted shares or share units based on actual performance to date. If less than half of the performance period has lapsed, or if actual performance is not determinable, the awards will be converted into restricted shares assuming target performance has been achieved.

In summary, a change in control under our equity incentive plan occurs if:

- a person, entity or affiliated group (with certain exceptions) acquires, in a transaction or series of transactions, 50% or more of the total combined voting power of our outstanding securities;
- our shareholders approve a reorganization or merger, unless (1) the holders of our voting shares immediately prior to the merger have at least 50.1% of the combined voting power of the securities in the surviving entity or its parent or (2) no person owns 50% or more of the shares of the surviving entity or the combined voting power of our outstanding voting securities;
- we sell or dispose of all or substandially all of our assets; or
- individuals who constitute our board of trustees cease for any reason to constitute a majority of our board of trustees, treating any individual whose election or nomination was approved by a majority of the incumbent trustees as an incumbent trustee for this purpose.

Adjustments for Stock Dividends and Similar Events

The compensation committee will make appropriate adjustments in outstanding awards and the number of shares available for issuance under our equity incentive plan, including the individual limitations on awards, to reflect share splits and other similar events.

Section 162(m) of the Code.

Section 162(m) of the Code limits publicly-held companies to an annual deduction for U.S. federal income tax purposes of $1,000,000 for compensation paid to each of their chief executive officer and their three highest compensated executive officers (other than the chief financial officer) determined at the end of each year, referred to as covered employees. However, performance-based compensation is excluded from this limitation. Our equity incentive plan is designed to permit our compensation committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), but it is not required under our equity incentive plan that awards qualify for this exception.

To qualify as performance-based:

(i) the compensation must be paid solely on account of the attainment of one or more pre-established, objective performance goals;

(ii) the performance goal under which compensation is paid must be established by a compensation committee comprised solely of two or more trustees who qualify as outside trustees for purposes of the exception;

(iii) the material terms under which the compensation is to be paid must be disclosed to and subsequently approved by shareholders before payment is made in a separate vote; and

(iv) the compensation committee must certify in writing before payment of the compensation that the performance goals and any other material terms were in fact satisfied.

Under our equity incentive plan, one or more of the following business criteria, on a consolidated basis, and/or with respect to specified subsidiaries (except with respect to the total shareholder return and earnings per share criteria), will be used by the compensation committee in establishing performance goals: (1) RevPAR; (2) hotel occupancy rates; (3) FFO; (4) adjusted FFO; (5) net earnings or net income; (6) operating earnings; (7) pretax earnings; (8) earnings per share; (9) share price, including growth measures and total shareholder return; (10) earnings before interest and taxes; (11) EBITDA; (12) return measures, including return on assets, capital, investment, equity, sales or revenue; (13) cash flow, including operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment; (14) expense targets; (15) market share; (16) financial ratios as provided in our credit agreements; (17) working capital targets; (18) completion of asset acquisitions or dispositions and/or achievement of acquisition or disposition goals; (19) revenues under management; (20) distributions to shareholders; (21) RevPAR penetration ratios; and (22) any combination of any of the foregoing business criteria. Business criteria may be (but are not required to be) measured on a basis consistent with GAAP.

Amendment; Termination

Our board of trustees may amend, suspend or terminate our equity incentive plan at any time; provided that no amendment, suspension or termination may adversely impair the benefits of participants with outstanding awards without the participants' consent or violate our equity incentive plan's prohibition on repricing. Our shareholders must approve any amendment if such approval is required under applicable law or stock exchange requirements. Our shareholders also must approve any amendment that changes the no-repricing provisions of our equity incentive plan. Our equity incentive plan does not have a term, but may be terminated by our board of trustees at any time.

Employment Agreements

We will enter into an employment agreement with each of our executive officers that will take effect upon completion of this offering. The employment agreements for Messrs. Johnson, Baltimore and Bierkan will be for a four-year term with an automatic renewal for one additional year unless either party gives 60 days' prior notice that the term will not be extended. The employment agreement for Ms. Hale will be for a three-year term with an automatic renewal for one additional year unless either party gives 60 days' prior notice that the term will not be extended.

Our employment agreement with Robert L. Johnson will provide for a base salary of $, a target bonus of $ (with the actual bonus to be determined by the compensation committee), with eligibility for grants of equity.

Our employment agreement with Thomas J. Baltimore, Jr. will provide for a base salary of $, a target bonus of $ (with the actual bonus to be determined by the compensation committee), with eligibility for grants of equity.

Our employment agreement with Leslie D. Hale will provide for a base salary of $, a target bonus of $ (with the actual bonus to be determined by the compensation committee), with eligibility for grants of equity.

Our employment agreement with Ross H. Bierkan will provide for a base salary of $, a target bonus of $ (with the actual bonus to be determined by the compensation committee), with eligibility for grants of equity.

Regardless of the reason for any termination of employment, each named executive officer is entitled to receive the following benefits upon termination: (1) payment of any unpaid portion of such executive's base salary through the effective date of termination; (2) reimbursement for any outstanding reasonable business expense; (3) continued insurance benefits to the extent required by law; and (4) payment of any vested but unpaid rights as may be required independent of the employment agreement.

In addition to the benefits described above, each named executive officer will be entitled to receive a severance payment if we terminate his or her employment without cause (including non-renewal for an additional one-year period of the agreement by us), if the executive resigns for good reason or in the event of a change of control of us. The severance payment will consist of: (1) a pro-rata bonus for the year of termination based on the portion of the year that has elapsed and the satisfaction of the performance criteria for such bonus (except in the case of a change of control when satisfaction of the performance criteria is not required); (2) continued payment by us of the executive's base salary, as in effect as of the executive's last day of employment, for a period of months for Messrs. Baltimore, Johnson and Bierkan and months for Ms. Hale; (3) continued payment for life and health insurance coverage for months for Messrs. Baltimore, Johnson and Bierkan, and months for Ms. Hale, to the same extent we paid for such coverage immediately prior to termination; (4) for Messrs. Baltimore, Johnson and Bierkan, times, and for Ms. Hale, times the executive's target annual bonus and highest annual equity award received by the executive in the prior three calendar years or, if the executive has not been employed for three years, the highest annual equity award of the executive for the year of termination and any prior year during which employed, provided that one quarter of any equity awards made in connection with this offering shall be treated as the annual equity award until there is an annual equity award after this offering; and (5) vesting as of the last day of employment in any unvested portion of any equity awards previously issued to the executive. If the termination is due to non-renewal of the agreements by us, the amounts received by Messrs. Baltimore, Johnson and Bierkan will be based on continuing base salary for a period of months and they will receive times their target annual bonus and annual equity award and Ms. Hale would receive continuing base salary for a period of months and times her target annual bonus and annual equity award. The foregoing benefits are conditioned upon the executive's execution of a general release of claims.

If the named executive officer's employment terminates due to death or disability, in addition to the benefits to be provided regardless of the reason for the termination of employment, the executive's estate is entitled to receive payment of the pro rata share of any performance bonus to which such executive would have been entitled for the year of death or disability regardless of whether the performance criteria has been satisfied and vesting of all unvested equity awards.

If the named executive officer's employment terminates due to retirement, in addition to the benefits to be provided regardless of the reason for the termination of employment, the executive is entitled to receive payment of any pro rata share of any performance bonus to which such executive would have been entitled for the year of retirement to the extent the performance goals have been achieved and vesting of all unvested equity awards.

Each employment agreement contains customary non-competition and non-solicitation covenants that apply during the term and for months after the term of each of Messrs. Baltimore, Johnson and Bierkan employment with us and for months after the term of Ms. Hale's employment with us.

Potential Payments Upon Termination

The compensation payable to our named executive officers upon voluntary termination for good reason, involuntary termination without cause, changes of control and termination in the event of

permanent disability, death or retirement of the executive or non-renewal of the agreement is described above under "—Executive Compensation—Employment Agreements."

The table below summarizes the potential cash payments and estimated equivalent cash value of benefits that will be generally owed to our named executive officers under the terms of their employment agreements described above upon termination of those agreements under various scenarios as of the effective time of this offering. Amounts shown do not include (1) payment of any unpaid portion of such executive's base salary through the effective date of termination, (2) reimbursement for any outstanding reasonable business expense, (3) continued insurance benefits to the extent required by law, and (4) payment of any vested but unpaid rights as may be required independent of the employment agreement. The amounts set forth in the table below take into account only obligations expected to exist as of the effective time of this offering. We may implement additional termination and/or change in control plans, programs or agreements subsequent to the effective time of this offering.

Named Executive Officer	Benefit	Non-Renewal by Company(1)	Without Cause/For Good Reason(2)	Death	Disability(3)	Retirement(4)
Robert L. Johnson	Cash	$ (5)	$ (5)	$	$	$
	Continued Life and Health	$ (6)	$ (6)	$	$	$
	Equity Acceleration	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)
	Total	$	$	$	$	$
Thomas J. Baltimore, Jr.	Cash	$ (5)	$ (5)	$	$	$
	Continued Life and Health	$ (6)	$ (6)	$	$	$
	Equity Acceleration	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)
	Total	$	$	$	$	$
Leslie D. Hale	Cash	$ (5)	$ (5)	$	$	$
	Continued Life and Health	$ (6)	$ (6)	$	$	$
	Equity Acceleration	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)
	Total	$	$	$	$	$
Ross H. Bierkan	Cash	$ (5)	$ (5)	$	$	$
	Continued Life and Health	$ (6)	$ (6)	$	$	$
	Equity Acceleration	$ (7)	$ (7)	$ (7)	$ (7)	$ (7)
	Total	$	$	$	$	$

(1) Reflects the payments and benefits that become payable if we elect not to renew the employment agreement.

(2) The term "cause" means any of the following, subject to any applicable cure provisions: (a) the conviction of the executive of any felony; (b) gross negligence or willful misconduct in connection with the performance of the executive's duties; (c) conviction of any other criminal offense involving an act of dishonesty intended to result in substantial personal enrichment at our expense; or (d) the material breach by the executive of any consulting or other services, confidentiality, intellectual property or non-competition agreements with us.

The term "good reason" means any of the following, subject to any applicable cure provisions, without the executive's consent: (a) the assignment to the executive of substantial duties or responsibilities inconsistent with the executive's position with us, or any other action by us that results in a substantial diminution of the executive's duties or responsibilities; (b) a requirement that the executive work principally from a location that is 30 miles further from the executive's residence than our address on the effective date of the executive's employment agreement; (c) a material reduction in the executive's aggregate base salary and other compensation (including the target bonus amount and retirement plan, welfare plans and fringe benefits) taken as a whole, excluding any reductions caused by the failure to achieve performance targets; or (d) any material breach by us of the employment agreement.

(3) The term "disability" means such physical or mental impairment as would render the executive unable to perform each of the essential duties of the executive's position by reason of a medically determinable physical or mental impairment which is potentially permanent in character or which can be expected to last for a continuous period of not less than 12 months.

(4) The term "retirement" means the point at which the executive has reached the age of 65 and has decided to exit the workforce completely. For purposes of the amounts disclosed in this table, we have assumed that each named executive officer has reached the retirement age of 65, regardless of their actual age.

(5) Cash amounts represent the sum of the following: (a) the pro-rata bonus for the year of termination based on the portion of the year that has elapsed and the satisfaction of the performance criteria for such bonus; (b) with respect to Messrs. Baltimore, Johnson and Bierkan, times their respective base salary and with respect to Ms. Hale, times her base salary, in effect as of the executive's last day of employment, to be paid in approximately equal installments for Messrs. Johnson, Baltimore and Bierkan and approximately equal installments for Ms. Hale on our regularly scheduled payroll dates; and (c) for Messrs. Johnson, Baltimore and Bierkan, times the target bonus and highest annual equity award and, with respect to Ms. Hale, times the target bonus and highest annual equity award received by the executive in the prior three calendar years or, if the executive has not been employed for three years, the highest annual equity award of the executive for the year of termination and any prior year during which employed. If the termination is due to non-renewal of an agreement, the amounts received by Messrs. Johnson, Baltimore and Bierkan will be based on a continuing base salary for a period of months and they will receive times their target annual bonus and annual equity award, and the amounts received by Ms. Hale will be based on a continuing base salary for a period of months and she will receive times her target annual bonus and annual equity award.

(6) Represents the value of life and health benefits paid by us for months with respect to Messrs. Johnson, Baltimore and Bierkan and months for Ms. Hale.

(7) The amounts represent the value of accelerated restricted shares to be granted to the executives concurrent with this offering. The fair value was calculated using the midpoint of the price range for our common shares set forth on the cover page of this prospectus.

Trustee Compensation

We intend to approve and implement a compensation program for our non-employee trustees, including each of the independent trustee nominees, that consists of annual retainer fees and equity awards. Each non-employee trustee will receive an annual base retainer for his or her services of $, payable in cash in quarterly installments in conjunction with quarterly meetings of our board of trustees. In addition, each non-employee trustee will receive an annual equity award of restricted shares with an aggregate value of $, which will vest ratably on the anniversary of the date of grant over a year period, subject to the trustee's continued service on our board of trustees. Each non-employee trustee who chairs the audit, compensation or nominating and corporate governance committees will receive an additional annual cash retainer of $, $ and $, respectively. In addition, our lead independent trustee will receive an additional annual cash retainer of $. Our non-employee trustees may elect to receive all or a portion of any annual cash retainer (including cash retainers for service as a chairperson of any committee or for service as lead independent trustee) in the form of restricted shares. We also will reimburse each of our trustees for his or her travel expenses incurred in connection with his or her attendance at full board of trustees and committee meetings. We have not made any payments to any of our trustees or trustee nominees to date.

Concurrently with the completion of this offering, we will grant restricted shares to each of our trustee nominees, pursuant to our equity incentive plan. These awards of restricted shares will vest ratably over a -year vesting period, subject to the trustee's continued service on our board of trustees.

Limitation of Liability and Indemnification

We intend to enter into indemnification agreements with each of our executive officers and trustees that will obligate us to indemnify them to the maximum extent permitted by Maryland law. The form of indemnification agreement provides that, if a trustee or executive officer is a party or is threatened to be made a party to any proceeding by reason of such trustee's or executive officer's status as our trustee, officer or employee, we must indemnify such trustee or executive officer for all

expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, unless it has been established that:

- the act or omission of the trustee or executive officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;
- the trustee or executive officer actually received an improper personal benefit in money, property or services; or
- with respect to any criminal action or proceeding, the trustee or executive officer had reasonable cause to believe that his or her conduct was unlawful;

provided, however, that we will (1) have no obligation to indemnify such trustee or executive officer for a proceeding by or in the right of our company, for expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, if it has been adjudged that such trustee or executive officer is liable to us with respect to such proceeding and (2) have no obligation to indemnify or advance expenses of such trustee or executive officer for a proceeding brought by such trustee or executive officer against our company, except for a proceeding brought to enforce indemnification under Section 2-418 of the MGCL or as otherwise provided by our bylaws, our declaration of trust, a resolution of our board of trustees or an agreement approved by our board of trustees. Under the MGCL, a Maryland corporation may not indemnify a director or officer in a suit by or in the right of the corporation in which the trustee or officer was adjudged liable on the basis that a personal benefit was improperly received.

Upon application by one of our trustees or executive officers to a court of appropriate jurisdiction, the court may order indemnification of such trustee or executive officer if:

- the court determines that such trustee or executive officer is entitled to indemnification under Section 2-418(d)(1) of the MGCL, in which case the trustee or executive officer shall be entitled to recover from us the expenses of securing such indemnification; or
- the court determines that such trustee or executive officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not the trustee or executive officer has met the standards of conduct set forth in Section 2-418(b) of the MGCL or has been adjudged liable for receipt of an "improper personal benefit" under Section 2-418(c) of the MGCL; provided, however, that our indemnification obligations to such trustee or executive officer will be limited to the expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection with any proceeding by us or in our right or in which such trustee or executive officer shall have been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL.

Notwithstanding, and without limiting, any other provisions of the indemnification agreements, if a trustee or executive officer is a party or is threatened to be made a party to any proceeding by reason of such trustee's or executive officer's status as our trustee, executive officer or employee, and such trustee or executive officer is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such proceeding, we must indemnify such trustee or executive officer for all expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection with each successfully resolved claim, issue or matter, including any claim, issue or matter in such a proceeding that is terminated by dismissal, with or without prejudice.

We must pay all indemnifiable expenses in advance of the final disposition of any proceeding if the trustee or executive officer furnishes us with a written affirmation of the trustee's or executive officer's good faith belief that the standard of conduct necessary for indemnification by us has been met and a

written undertaking to reimburse us if a court of competent jurisdiction determines that the trustee or executive officer is not entitled to indemnification.

Our declaration of trust and bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (1) any present or former trustee or officer (including any individual who, at our request, serves or has served as a director, trustee, officer, partner, member, employee or agent of another REIT, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise) against any claim or liability to which he or she may become subject by reason of service in such capacity and (2) any present or former trustee or officer who has been successful in the defense of a proceeding to which he or she was made a party by reason of service in such capacity. Our declaration of trust and bylaws also permit us, with the approval of our board of trustees, to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

Rule 10b5-1 Sales Plans

In the future, our trustees and executive officers may adopt written plans, known as Rule 10b5-1 plans, in which they will contract with a broker to buy or sell our common shares on a periodic basis. Under a Rule 10b5-1 plan, a broker executes trades pursuant to parameters established by the trustee or executive officer when entering into the plan, without further direction from them. The trustee or executive officer may amend a Rule 10b5-1 plan in some circumstances and may terminate a plan at any time. Our trustees and executive officers also may buy or sell additional common shares outside a Rule 10b5-1 plan when they are not in possession of material nonpublic information, subject to compliance with the terms of our expected insider trading policy. Prior to the termination of any applicable lock-up agreement that the trustee or executive officer has entered into with the underwriters, the sale of any common shares under such plan would be subject to such lock-up agreement.

Compensation Committee Interlocks and Insider Participation

Upon completion of this offering and our formation transactions, we do not anticipate that any of our executive officers will serve as a member of a board of trustees or compensation committee, or other committee serving an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of trustees or compensation committee.

PRINCIPAL SHAREHOLDERS

Immediately prior to the completion of this offering, we will have a total of 1,000 common shares outstanding. In connection with our formation and initial capitalization, we sold 500 of these shares to our Executive Chairman, Robert L. Johnson, and 500 of these shares to Thomas J. Baltimore, Jr., our President and Chief Executive Officer, for total consideration of $1,000. At the completion of this offering, we will repurchase these shares from Messrs. Johnson and Baltimore for a total of $1,000.

The following table sets forth the beneficial ownership of our common shares and OP units immediately following completion of this offering and our formation transactions by (1) each of the executive officers named in the table appearing under the caption "Management—Summary Compensation Table," (2) each of our trustees and trustee nominees, (3) all of our executive officers, trustees and trustee nominees as a group and (4) each holder of 5% or more of our common shares and OP units.

The SEC has defined "beneficial ownership" of a security to mean the possession, directly or indirectly, of voting power and/or investment power over such security. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, common shares subject to options or other rights held by that person that are currently exercisable or will become exercisable within 60 days, are deemed outstanding, while such shares are not deemed outstanding for purposes of computing the beneficial ownership percentage of any other person. Each person named in the table has sole voting and investment power with respect to all of the common shares shown as beneficially owned by such person, except as otherwise set forth in the notes to the table. Unless otherwise indicated, the address of each named person is c/o 3 Bethesda Metro Center, Suite 1000, Bethesda, MD 20814.

Name of Beneficial Owner	Number of Common Shares and OP Units Beneficially Owned	Percentage of All Common Shares and OP Units
Robert L. Johnson		
Thomas J. Baltimore, Jr.		
Leslie D. Hale		
Ross H. Bierkan		
Evan Bayh		
Nathaniel A. Davis		
Robert M. La Forgia		
Glenda G. McNeal		
Joseph Ryan		
All trustees, trustee nominees and executive officers as a group (9 persons)		

* Represents less than 1% of our common shares outstanding on a fully diluted basis upon completion of this offering.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Formation Transactions

Prior to or concurrently with the completion of this offering, we will engage in certain formation transactions which are designed to: consolidate our management platform into our operating partnership; consolidate the ownership of our initial hotels into our operating partnership; facilitate this offering; enable us to raise necessary capital to repay existing indebtedness related to certain of our initial hotels; enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011; and preserve the tax position of our continuing investors.

The significant elements of our formation transactions include:

- formation of our company and our operating partnership;
- the merger transactions, pursuant to which we will acquire all of our initial hotels;
- a contribution transaction, pursuant to which we will acquire substantially all of the assets and liabilities of RLJ Development; and
- the assumption by us of indebtedness related to our initial hotels and the repayment of certain outstanding indebtedness secured by certain of our initial hotels.

Individuals and entities receiving shares in our formation transactions have agreed to a holdback in the aggregate amount of $25 million from the total consideration to be received in connection with our formation transactions to cover potential breaches of the representations and warranties contained in the merger and contribution agreements entered into between us and our predecessor. "See Structure and Formation of Our Company—Formation Transactions."

Grants of Awards under our Equity Incentive Plan

In connection with this offering and our formation transactions, each of our executive officers and trustees and certain employees will receive material benefits, including the following (dollar values below are based on the midpoint of the price range set forth on the cover page of this prospectus):

- Robert L. Johnson, Executive Chairman of our board of trustees, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Johnson restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.
- Thomas J. Baltimore, Jr., our President, Chief Executive Officer and member of our board of trustees, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Baltimore restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.
- Leslie D. Hale, our Chief Financial Officer, will receive common shares, with an initial aggregate value of approximately $ million, in exchange for her ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Ms. Hale restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.
- Ross H. Bierkan, our Chief Investment Officer, will receive common shares and OP units, with an initial aggregate value of approximately $ million, in exchange for his ownership interests in our predecessor in our formation transactions. In addition, we expect to grant Mr. Bierkan restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.
- We expect to grant to other employees an aggregate of restricted shares under our equity incentive plan, with an initial aggregate value of approximately $, subject to vesting requirements.

- We expect to grant to each of our non-employee trustees restricted shares under our equity incentive plan, each with an initial aggregate value of approximately $, subject to vesting requirements.

The restricted share awards to be granted to our executive officers and employees upon completion of this offering will vest in equal, annual installments on each of the first anniversaries of the date of the completion of this offering, subject to the executive officer's or employee's continued employment with us. The restricted share awards to be granted to our non-employee trustees upon completion of this offering will vest ratably over a -year vesting period, subject to the trustee's continued service on our board of trustees.

Employment Agreements

We will enter into an employment agreement agreement with each of our executive officers that will be effective upon completion of this offering. The employment agreements provide for base salary, bonus and other benefits, including accelerated vesting of equity awards upon a change in control of us or termination of the executive's employment under certain circumstances. See "Management—Executive Compensation—Employment Agreements."

Indemnification Agreements for Officers and Trustees

We intend to enter into indemnification agreements with our trustees and executive officers that will be effective upon completion of this offering. These indemnification agreements will provide indemnification to these persons by us to the maximum extent permitted by Maryland law and certain procedures for indemnification, including advancement by us of certain expenses relating to claims brought against these persons under certain circumstances. See "Management—Limitation of Liability and Indemnification."

Registration Rights Agreements

We expect to enter into registration rights agreements with the entities and individuals receiving our common shares and OP units in our formation transactions, including our executive officers. See "Shares Eligible for Future Sale—Registration Rights Agreements."

Sub-Lease Agreement with RLJ Companies

Under a lease dated as of June 28, 2005, RLJ Development leases office space in Bethesda, Maryland, where our headquarters are located. RLJ Development historically has sub-leased a portion of the office space subject to the lease to RLJ Companies, LLC, or RLJ Companies, the parent of certain other companies founded and controlled by Robert L. Johnson, our Executive Chairman. Under the terms of the sub-lease, RLJ Companies pays RLJ Development monthly rent at the same rate at which RLJ Development pays rent to the owner of the building, based on the number of rentable square feet RLJ Companies occupies under the sub-lease relative to the total rentable square feet available to RLJ Development under the lease agreement. RLJ Companies also is responsible for its allocable share of operating costs, including, among others, utility costs and common area costs. As of March 31, 2011, RLJ Companies subleased approximately 14,200 square feet of office space from RLJ Development, and the annualized rent payable by the RLJ Companies to RLJ Development was approximately $590,000. In connection with our formation transactions and this offering, we will assume the lease from RLJ Development, which will provide for our continued use of the office space as our corporate headquarters. In addition, upon consummation of our formation transactions and this offering, we expect that the sub-lease with the RLJ Companies will remain in full force and effect, which will provide that RLJ Companies pay us rent for its allocable share of the leased space. The primary lease and the sub-lease both expire on June 28, 2015, but can be renewed for one additional five-year period at our option, subject to the satisfaction of certain criteria.

INVESTMENT POLICIES AND POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of our investment policies and our policies with respect to certain other activities, including financing matters and conflicts of interest. These policies may be amended or revised from time to time at the discretion of our board of trustees without shareholder approval. Any change to any of these policies by our board of trustees, however, would be made only after a thorough review and analysis of that change, in light of then-existing business and other circumstances, and then only if, in the exercise of its business judgment, our board of trustees believes that it is advisable to do so in our and our shareholders' best interests. We intend to disclose any changes in our investment policies in periodic reports that we file or furnish under the Exchange Act. We cannot assure you that our investment objectives will be attained.

Investments in Real Estate or Interests in Real Estate

We intend to conduct substantially all of our investment activities through our operating partnership and its subsidiaries. Our primary objective is to enhance shareholder value over time by generating strong risk-adjusted returns for our shareholders. We plan to invest principally in hotels located in the United States. We target primarily premium-branded, focused-service and compact full-service hotels that are consistent with our investment and growth strategies. We also may selectively invest in loans secured by these types of hotels or ownership interests in entities owning these types of hotels to the extent the investment provides us with an opportunity to acquire the underlying real estate, and subject to the limitations imposed by reason of our intention to qualify as a REIT. For a discussion of our initial hotels and our acquisition and other strategic objectives, see "Our Business and Properties."

We intend to engage in future investment activities in a manner that is consistent with the requirements applicable to REITs for federal income tax purposes. We primarily expect to pursue our investment objectives through the ownership by our operating partnership of hotels, but we may also make equity investments in other entities, including joint ventures that own hotels. Our management team will identify and negotiate acquisition and other investment opportunities, subject to the approval by our board of trustees. For information concerning the investing experience of these individuals, please see the section entitled "Management."

We may enter into joint ventures from time to time, if we determine that doing so would be the most cost-effective and efficient means of raising capital. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing or indebtedness may be incurred in connection with acquiring investments. Any such financing or indebtedness will have priority over our equity interest in such property. Investments are also subject to our policy not to be treated as an investment company under the Investment Company Act of 1940, as amended.

We do not have a specific policy to acquire assets primarily for capital gain or primarily for income. From time to time, we may make investments in pursuit of our business and growth strategies that do not provide current cash flow. We believe investments that do not generate current cash flow may be, in certain instances, consistent with enhancing shareholder value over time.

We do not have any specific policy as to the amount or percentage of our assets which will be invested in any specific asset, other than the tax rules applicable to REITs. Additionally, no limits have been set on the concentration of investments in any one geographic location, hotel type or franchise brand. We currently anticipate that our real estate investments will continue to be concentrated in premium-branded, focused-service and compact full-service hotels. We anticipate that our real estate investments will continue to be diversified in terms of geographic market.

Investments in Real Estate Mortgages

While we will emphasize equity real estate investments in hotels, we may selectively acquire loans secured by hotels or entities that own hotels to the extent that those investments are consistent with our qualification as a REIT and provide us with an opportunity to acquire the underlying real estate. We do not intend to originate any secured or unsecured real estate loans or purchase any debt securities as a stand-alone, long-term investment, but, in limited circumstances, we may from time to time provide a short-term loan to a hotel owner as a means of securing an acquisition opportunity. The mortgages in which we may invest may be first-lien mortgages or subordinate mortgages secured by hotels. The subordinated mezzanine loans in which we may invest may include mezzanine loans secured by a pledge of ownership interests in an entity owning a hotel or group of hotels. Investments in real estate mortgages and subordinated real estate loans are subject to the risk that one or more borrowers may default and that the collateral securing mortgages may not be sufficient or, in the case of subordinated mezzanine loans, available to enable us, to recover our full investment.

Investments in Securities or Interests in Entities Primarily Engaged in Real Estate Activities and Investments in Other Securities

Subject to the gross income and asset requirements required to qualify as a REIT, we may invest in securities of entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities. We do not currently have any policy limiting the types of entities in which we may invest or the proportion of assets to be so invested, whether through acquisition of an entity's common shares, limited liability or partnership interests, interests in another REIT or entry into a joint venture. However, other than in our formation transactions, we do not presently intend to invest in these types of securities.

Purchase and Sale of Investments

We expect to invest in hotels primarily for generation of current income and long-term capital appreciation. Although we do not currently intend to sell any hotels, we may deliberately and strategically dispose of assets in the future and redeploy funds into new acquisitions and redevelopment, renovation and expansion opportunities that align with our investment and growth strategies.

Lending Policies

We do not expect to engage in any significant lending in the future. However, we do not have a policy limiting our ability to make loans to other persons, although our ability to do so may be limited by applicable law, such as the Sarbanes-Oxley Act of 2002. Subject to tax rules applicable to REITs, we may make loans to unaffiliated third parties. For example, we may consider offering purchase money financing in connection with the disposition of assets in instances where the provision of that financing would increase the value to be received by us for the asset sold. We may choose to guarantee debt of certain joint ventures with third parties. Consideration for those guarantees may include, but is not limited to, fees, long-term management contracts, options to acquire additional ownership interests and promoted equity positions. Our board of trustees may, in the future, adopt a formal lending policy without notice to or consent of our shareholders.

Issuance of Additional Securities

If our board of trustees determines that obtaining additional capital would be advantageous to us, we may, without shareholder approval, issue debt or equity securities, including causing our operating partnership to issue additional OP units, retain earnings (subject to the REIT distribution requirements for federal income tax purposes) or pursue a combination of these methods. As long as our operating

partnership is in existence, the proceeds of all equity capital raised by us will be contributed to our operating partnership in exchange for additional OP units, which will dilute the ownership interests of any other limited partners.

We may offer our common shares, OP units, or other debt or equity securities in exchange for cash, real estate assets or other investment targets, and to repurchase or otherwise re-acquire our common shares, OP units or other debt or equity securities. We may issue preferred shares from time to time, in one or more classes or series, as authorized by our board of trustees without the need for shareholder approval. We have not adopted a specific policy governing the issuance of senior securities at this time.

Reporting Policies

We intend to make available to our shareholders audited annual financial statements and annual reports. Upon completion of this offering, we will become subject to the information reporting requirements of the Exchange Act, pursuant to which we will file periodic reports, proxy statements and other information, including audited financial statements, with the SEC.

Conflict of Interest Policies

Relationship with Our Operating Partnership

Conflicts of interest could arise in the future as a result of the relationships between us, on the one hand, and our operating partnership or any limited partner thereof, on the other. Our trustees and officers have duties to our company and our shareholders under applicable Maryland law in connection with their management of our company. At the same time, we, as general partner, have fiduciary duties and obligations to our operating partnership and to its limited partners under Delaware law and the partnership agreement of our operating partnership in connection with the management of our operating partnership. Our duties as general partner to our operating partnership and its partners may come into conflict with the duties of our trustees and officers to our company and our shareholders.

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

The partnership agreement of our operating partnership provides that the provisions limiting our liability, as the general partner, to our operating partnership and the limited partners act as an express limitation of any fiduciary or other duties that we would otherwise owe our operating partnership and the limited partners. The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

The partnership agreement of our operating partnership expressly limits our liability by providing that neither we, as the general partner of our operating partnership, nor any of our trustees or officers, will be liable or accountable in damages to our operating partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee or officer, acted in good faith. In addition, our operating partnership is required to indemnify us, and our officers, trustees, employees, agents and designees to the fullest extent permitted by applicable law from and against any and all claims arising from operations of our operating partnership, unless it is established that (1) the act or omission was material to the matter giving rise to the proceeding and

was committed in bad faith or was the result of active and deliberate dishonesty, (2) the indemnified party actually received an improper personal benefit in money, property or services or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful.

Policies Applicable to All Trustees and Officers

We intend to adopt certain policies that are designed to eliminate or minimize certain potential conflicts of interest, including a policy for the review, approval or ratification of any material related party transaction, which is any transaction or series of transactions in which we or any of our subsidiaries are to be a participant, the amount involved exceeds $120,000, and a "related person" (as defined under SEC rules) has a direct or indirect material interest. This policy will provide that the audit committee of our board of trustees will review the relevant facts and circumstances of each related party transaction, including whether the transaction is on terms comparable to those that could be obtained in arm's-length dealings with an unrelated third party. Based on its consideration of all of the relevant facts and circumstances, the audit committee will decide whether or not to approve such transaction. If we become aware of an existing related party transaction that has not been pre-approved under this policy, the transaction will be referred to the audit committee, which will evaluate all options available, including ratification, revision or termination of such transaction. This policy also will require any trustee who may be interested in a related party transaction to recuse himself or herself from any consideration of such related party transaction. Further, we will adopt a code of business conduct and ethics that prohibits conflicts of interest between us, on the one hand, and our employees, officers and trustees, on the other hand, unless such transactions are approved by a majority of our disinterested trustees or otherwise comply with our related party transaction policy. In addition, our board of trustees is subject to certain provisions of Maryland law that are designed to eliminate or minimize conflicts. However, we cannot assure you that these policies or provisions of law will always be successful in eliminating the influence of such conflicts. If such policies or provisions of law are not successful, decisions could be made that are not in the best interests of our shareholders.

STRUCTURE AND FORMATION OF OUR COMPANY

Structure

We were formed as a Maryland real estate investment trust in January 2011. We will conduct our business through a traditional UPREIT, in which our hotels are indirectly owned by our operating partnership through limited partnerships, limited liability companies or other subsidiaries. We are the sole general partner of our operating partnership and, upon completion of this offering and our formation transactions, will own approximately % of the OP units in our operating partnership. In the future, we may issue OP units from time to time in connection with acquisitions of hotels or for financing, compensation or other reasons.

In order for the income from our hotel operations to constitute "rents from real property" for purposes of the gross income tests required for REIT qualification, we cannot directly or indirectly operate any of our hotels. Accordingly, we lease each of our initial hotels, and intend to lease any hotels we acquire in the future, to subsidiaries of our TRS lessees, which are wholly-owned by us, and our TRS lessees have engaged, or will engage, third-party hotel management companies to manage our initial hotels, and any hotels we acquire in the future, on market terms. Our TRS lessees pay rent to us that we treat as "rents from real property," provided that the third-party hotel management companies engaged by our TRS lessees to manage our hotels are deemed to be "eligible independent contractors" and certain other requirements are met. Our TRSs are subject to U.S. federal, state and local income taxes applicable to corporations. See "Our Principal Agreements—Hotel Management Agreements."

Formation Transactions

Prior to or concurrently with the completion of this offering, we will engage in certain formation transactions which are designed to: consolidate our management platform into our operating partnership; consolidate the ownership of our initial hotels into our operating partnership; facilitate this offering; enable us to raise necessary capital to repay existing indebtedness related to certain of our initial hotels; enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011; and preserve the tax position of our continuing investors.

In connection with our formation transactions, the following transactions have occurred or will occur concurrently with or prior to completion of this offering:

- RLJ Lodging Trust was formed as a Maryland real estate investment trust on January 31, 2011. We intend to elect to be taxed and to operate in a manner that will enable us to qualify as a REIT for U.S. federal income tax purposes commencing with the taxable year ending December 31, 2011.
- RLJ Lodging Trust, L.P. was formed as a Delaware limited partnership on January 31, 2011.
- Fund II will merge with and into RLJ Lodging Trust. In consideration for such merger, investors in Fund II, including entities in which members of our senior management team hold equity interests, will receive common shares in RLJ Lodging Trust.
- Fund III will merge with and into RLJ Lodging Trust. In consideration for such merger, investors in Fund III, including entities in which members of our senior management team hold equity interests, will receive common shares in RLJ Lodging Trust.
- RLJ Development, with its related investment and ownership platform, will contribute all of its assets and liabilities to RLJ Lodging Trust, L.P., as designee of RLJ Lodging Trust, except for assets and liabilities related to RLJ Development's indirect interest in an apartment building located in Baltimore, Maryland. In consideration for such transaction, RLJ Development, an entity in which certain members of our senior management team hold equity interests, will receive OP units in RLJ Lodging Trust, L.P.

- Pursuant to a series of related secondary mergers that are related to the primary mergers of Fund II and Fund III with and into RLJ Lodging Trust, each of the subsidiary REITs of Fund II and Fund III will merge with and into RLJ Lodging Trust.

- In connection with the secondary mergers, the membership interests acquired by RLJ Lodging Trust in each subsidiary REIT will be cancelled for no consideration and all of the preferred units of each subsidiary REIT will be cancelled in exchange for cash in an amount equal to the current applicable redemption price.

- In connection with our formation transactions, certain subsidiaries of the subsidiary REITs will merge with and into RLJ Lodging Trust, L.P., with RLJ Lodging Trust, L.P. succeeding to the assets and liabilities of those subsidiaries, including the indirect interests in our initial hotels.

- RLJ Lodging Trust will sell common shares in this offering and contribute the net proceeds of this offering to RLJ Lodging Trust, L.P. in exchange for a like number of OP units.

Pursuant to the merger and contribution agreements entered into between us and our predecessor, Fund II, Fund III and RLJ Development have made certain representations and warranties to our company in connection with the hotels, assets and liabilities to be acquired by us in connection with our formation transactions. As our sole recourse in the event of a breach of any representations and warranties contained in our merger or contribution agreements, individuals and entities receiving common shares or OP units in our formation transactions have agreed to a holdback in the aggregate amount of $25 million from the total consideration to be received in connection with our formation transactions. The holdback amount will be used to the extent that we incur any losses or damages as a result of breaches of representations and warranties, up to the $25 million holdback amount. The holdback amount will be maintained as three separate escrow accounts for our benefit, relating to Fund II, Fund III and RLJ Development, and will be deducted from the consideration paid to individuals and entities receiving common shares or OP units in our formation transactions in the manner set forth in the merger and contribution agreements. After the expiration of six months from the completion of our formation transactions, 50% of any portion of the holdback amount remaining in the holdback escrow accounts that are not subject to existing indemnity claims will be distributed pro rata to individuals and entities receiving common shares or OP units in our formation transactions in the manner set forth in the applicable merger and/or contribution agreement. After the expiration of 12 months from the completion of our formation transactions, any holdback amount remaining in the holdback escrow accounts that are not subject to existing indemnity claims will be similarly distributed.

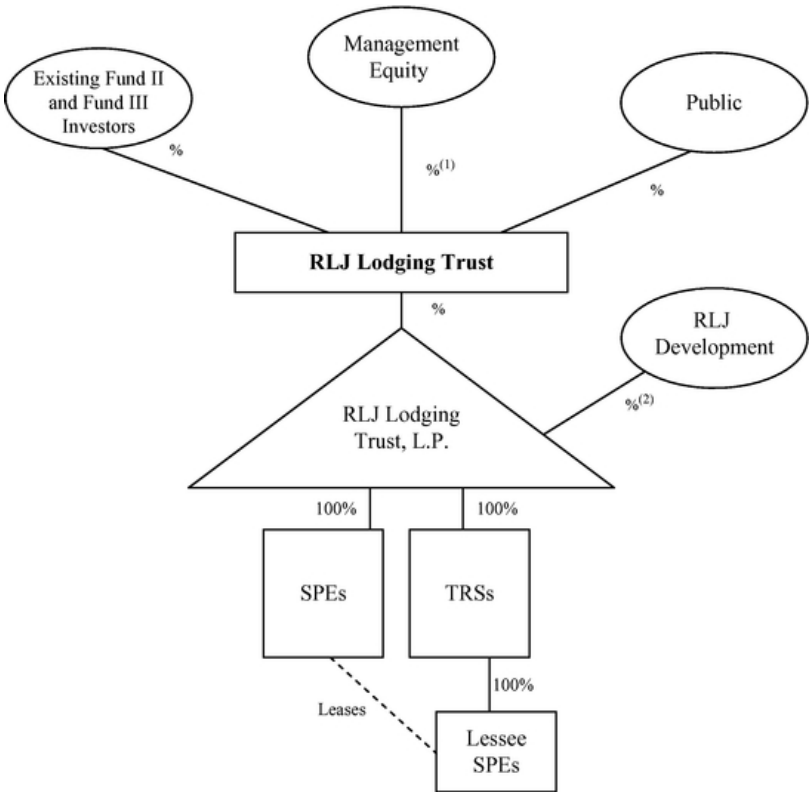
Our sole and exclusive remedy for breaches of representations and warranties under the merger and contribution agreements will be recovery from the holdback escrow accounts, and the individuals and entities receiving common shares or OP units in our formation transactions will not be required to make any payments in excess of the holdback amount. Consequently, there is no assurance that we will be made whole for breaches of representations or warranties relating to the assets and liabilities of Fund II or Fund III, as the case may be, or RLJ Development. This summary of our holdback escrow and the representations and warranties made in connection with our formation transactions is qualified in its entirety by the detailed provisions contained in our merger and contribution agreements, which are filed as exhibits to the registration statement of which this prospectus is a part.

As part of our formation transactions, we also will pay off and assume certain indebtedness as follows:

- we expect to use substantially all of the net proceeds of this offering to repay approximately $ million of our outstanding consolidated indebtedness and to pay approximately $ million of prepayment fees associated therewith; and

- after application of the net proceeds of this offering to repay indebtedness, we will assume approximately $1.3 billion of consolidated indebtedness.

The following chart depicts our anticipated structure and ownership following (1) the completion of our formation transactions, and (2) the completion of this offering, assuming no exercise by the underwriters of their overallotment option:



(1) Includes common shares to be issued to members of our senior management team in connection with our formation transactions, as well as restricted shares to be granted to our trustees, executive officers and other employees concurrently with the completion of this offering pursuant to our equity incentive plan.

(2) Reflects OP units to be issued to RLJ Development, an entity in which each of Messrs. Johnson, Baltimore and Bierkan hold an equity interest, as consideration for substantially all of RLJ Development's assets and liabilities, which are being contributed to us in connection with our formation transactions.

DESCRIPTION OF SHARES

The following summary of the material terms of our shares of beneficial interest does not purport to be complete and is subject to and qualified in its entirety by reference to applicable Maryland law and to our declaration of trust and bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

General

Our declaration of trust provides that we may issue up to 450,000,000 common shares, par value $0.01 per share, and 50,000,000 preferred shares, par value $0.01 per share. Our declaration of trust authorizes our board of trustees to amend our declaration of trust to increase or decrease the aggregate number of authorized common shares or the number of shares of any class or series without shareholder approval.

Maryland law provides, and our declaration of trust provides, that none of our shareholders are personally liable for any of our obligations solely as a result of that shareholder's status as a shareholder.

Common Shares

Voting Rights of Common Shares

Subject to the provisions of our declaration of trust regarding the restrictions on transfer and ownership of shares of beneficial interest and except as may otherwise be specified in the terms of any class or series of shares of beneficial interest, each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trustees, and, except as provided with respect to any other class or series of shares of beneficial interest, the holders of such common shares will possess the exclusive voting power. There will be no cumulative voting in the election of trustees.

Under the Maryland statute governing real estate investment trusts formed under the laws of that state, or the Maryland REIT law, a Maryland real estate investment trust generally cannot amend its declaration of trust or merge with another entity unless declared advisable by a majority of its board of trustees and approved by the affirmative vote of shareholders holding at least two-thirds of the shares entitled to vote on the matter unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the real estate investment trust's declaration of trust. Our declaration of trust provides that these actions (other than certain amendments to the provisions of the declaration of trust related to the removal of trustees, the restrictions on ownership and transfer of shares and the termination of our existence) may be taken if declared advisable by a majority of our board of trustees and approved by the vote of shareholders holding a majority of the votes entitled to be cast on the matter.

Dividends, Distributions, Liquidation and Other Rights

Subject to the preferential rights of any other class or series of shares and to the provisions of our declaration of trust regarding the restrictions on transfer and ownership of shares, holders of our common shares are entitled to receive dividends on such common shares if, as and when authorized by the board of trustees, and declared by us out of assets legally available therefor. Such holders also are entitled to share ratably in the assets of our company legally available for distribution to shareholders in the event of our liquidation, dissolution or winding up after payment or establishment of reserves for all debts and other liabilities of our company and any shares with preferential rights related thereto.

Holders of common shares have no preference, conversion, exchange, sinking fund or redemption rights, have no preemptive rights to subscribe for any securities of our company and have no appraisal

rights. Subject to the provisions of our declaration of trust regarding the restrictions on transfer and ownership of shares, common shares will have equal dividend, liquidation and other rights.

Preferred Shares

Our declaration of trust authorizes our board of trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any series into one or more classes or series of shares. Prior to issuance of shares of each new class or series, our board of trustees will be required by Maryland REIT law and our declaration of trust to set, subject to the provisions of our declaration of trust regarding the restrictions on ownership and transfer of our shares and the terms of any class or series then outstanding, the preferences, conversion rights, redemption provisions, any basis upon which dividends are payable (including rate or formula and whether dividends are cumulative), voting powers, restrictions, limitations as to dividends or other distributions, and other terms and conditions of each such class or series. As a result, our board of trustees will be able to authorize the issuance of shares that have priority over our common shares with respect to dividends, voting, distributions or rights upon liquidation or with other terms or conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for our common shares or that might otherwise be in the best interests of our shareholders. As of the date hereof, no preferred shares are outstanding and we have no present plans to issue any preferred shares.

Power to Reclassify Our Unissued Common Shares or Preferred Shares

Our declaration of trust authorizes our board of trustees to classify and reclassify any unissued common shares or preferred shares into other classes or series of shares and to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption for each such class or series.

Power to Increase or Decrease Authorized Common Shares and Issue Additional Common and Preferred Shares

We believe that the power of our board of trustees to amend our declaration of trust to increase or decrease the number of authorized shares, to issue additional authorized but unissued common shares or preferred shares and to classify or reclassify unissued common shares or preferred shares and thereafter to cause to issue such classified or reclassified shares will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series will be available for issuance without further action by our shareholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded.

Restrictions on Ownership and Transfer

In order for us to qualify as a REIT under the Code, our shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares (after taking into account options to acquire common shares) may be owned, directly, indirectly or through attribution, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

In order to assist us in complying with the limitations on the concentration of ownership of our shares imposed by the Code, our declaration of trust generally prohibits any person or entity (other

than a person or entity who has been granted an exception) from directly or indirectly, beneficially or constructively, owning more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive. However, our declaration of trust permits (but does not require) exceptions to be made for shareholders provided that our board of trustees determines that such exceptions will not jeopardize our qualification as a REIT.

Our declaration of trust will also prohibit any person from (1) beneficially or constructively owning our shares of beneficial interest that would result in our being "closely held" under Section 856(h) of the Code, (2) transferring our shares if such transfer would result in us being beneficially owned by fewer than 100 persons (determined without regard to any rules of attribution), (3) beneficially or constructively owning our shares that would result in our owning (directly or constructively) 10% or more of the ownership interest in a tenant of our real property if income derived from such tenant for our taxable year would result in more than a de minimis amount of non-qualifying income for purposes of the REIT tests, and (4) beneficially or constructively owning our shares that would cause us otherwise to fail to qualify as a REIT, including, but not limited to, as a result of any "eligible independent contractor" (as defined in Section 856(d)(9)(A) of the Code) that operates a "qualified lodging facility" (as defined in Section 856(d)(9)(D)(i) of the Code) on behalf of a TRS failing to qualify as such. Any person who acquires or attempts or intends to acquire beneficial ownership of our shares that will or may violate any of the foregoing restrictions on transferability and ownership will be required to give notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfers on our qualification as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board of trustees determines that it is no longer in our best interest to attempt to qualify, or to qualify, or to continue to qualify, as a REIT. In addition, our board of trustees may determine that compliance with the foregoing restrictions is no longer required for our qualification as a REIT.

Our board of trustees, in its sole discretion, may exempt a person from the above share ownership limits and any of the restrictions described above. However, our board of trustees may not grant an exemption to any person unless our board of trustees obtains such representations, covenants and understandings as it may deem appropriate in order to determine that granting the exemption would not result in us losing our qualification as a REIT. As a condition of granting the exemption, our board of trustees may require a ruling from the IRS or an opinion of counsel in either case in form and substance satisfactory to our board of trustees, in its sole discretion, in order to determine or ensure our qualification as a REIT.

In addition, our board of trustees from time to time may increase the share ownership limits. However, the share ownership limits may not be increased if, after giving effect to such increase, five or fewer individuals could own or constructively own in the aggregate, more than 49.9% in value of the shares then outstanding.

If any transfer of our shares of beneficial interest occurs which, if effective, would result in any person beneficially or constructively owning shares in excess, or in violation, of the above transfer or ownership limitations, known as a prohibited owner, then that number of shares, the beneficial or constructive ownership of which otherwise would cause such person to violate the transfer or ownership limitations (rounded up to the nearest whole share), will be automatically transferred to a charitable trust for the exclusive benefit of a charitable beneficiary, and the prohibited owner will not acquire any rights in such shares. This automatic transfer will be considered effective as of the close of business on the business day before the violative transfer. If the transfer to the charitable trust would not be effective for any reason to prevent the violation of the above transfer or ownership limitations, then the transfer of that number of shares that otherwise would cause any person to violate the above limitations will be void. Shares held in the charitable trust will continue to constitute issued and

outstanding shares. The prohibited owner will not benefit economically from ownership of any shares held in the charitable trust, will have no rights to dividends or other distributions and will not possess any rights to vote or other rights attributable to the shares held in the charitable trust. The trustee of the charitable trust will be designated by us and must be unaffiliated with us or any prohibited owner and will have all voting rights and rights to dividends or other distributions with respect to shares held in the charitable trust, and these rights will be exercised for the exclusive benefit of the trust's charitable beneficiary. Any dividend or other distribution paid before our discovery that shares have been transferred to the trustee will be paid by the recipient of such dividend or distribution to the trustee upon demand, and any dividend or other distribution authorized but unpaid will be paid when due to the trustee. Any dividend or distribution so paid to the trustee will be held in trust for the trust's charitable beneficiary. Subject to Maryland law, effective as of the date that such shares have been transferred to the charitable trust, the trustee, in its sole discretion, will have the authority to:

- rescind as void any vote cast by a prohibited owner prior to our discovery that such shares have been transferred to the charitable trust; and
- recast such vote in accordance with the desires of the trustee acting for the benefit of the trust's charitable beneficiary.

However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast such vote.

Within 20 days of receiving notice from us that shares have been transferred to the charitable trust, and unless we buy the shares first as described below, the trustee will sell the shares held in the charitable trust to a person, designated by the trustee, whose ownership of the shares will not violate the share ownership limits in our declaration of trust. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the prohibited owner and to the charitable beneficiary. The prohibited owner will receive the lesser of:

- the price paid by the prohibited owner for the shares or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in the charitable trust (for example, in the case of a gift or devise), the market price of the shares on the day of the event causing the shares to be held in the charitable trust; and
- the price per share received by the trustee from the sale or other disposition of the shares held in the charitable trust (less any commission and other expenses of a sale).

The trustee may reduce the amount payable to the prohibited owner by the amount of dividends and distributions paid to the prohibited owner and owed by the prohibited owner to the trustee. Any net sale proceeds in excess of the amount payable to the prohibited owner will be paid immediately to the charitable beneficiary. If, before our discovery that our shares have been transferred to the charitable trust, such shares are sold by a prohibited owner, then:

- such shares will be deemed to have been sold on behalf of the charitable trust; and
- to the extent that the prohibited owner received an amount for such shares that exceeds the amount that the prohibited owner was entitled to receive as described above, the excess must be paid to the trustee upon demand.

In addition, shares held in the charitable trust will be deemed to have been offered for sale to us, or our designee, at a price per share equal to the lesser of:

- the price per share in the transaction that resulted in such transfer to the charitable trust (or, in the case of a gift or devise, the market price at the time of the gift or devise); and
- the market price on the date we, or our designee, accepts such offer.

We may reduce the amount payable to the prohibited owner by the amount of dividends and distributions paid to the prohibited owner and owed by the prohibited owner to the trustee. We may pay the amount of such reduction to the trustee for the benefit of the charitable beneficiary. We will have the right to accept the offer until the trustee has sold the shares held in the charitable trust. Upon such a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the prohibited owner and any dividends or other distributions held by the trustee will be paid to the charitable beneficiary.

All certificates representing shares of beneficial interest bear a legend referring to the restrictions described above.

Every owner of more than 5% (or such lower percentage as required by the Code or the regulations promulgated thereunder) in value of the outstanding shares within 30 days after the end of each taxable year will be required to give written notice to us stating the name and address of such owner, the number of shares of each class and series of our shares that the owner beneficially owns and a description of the manner in which the shares are held. Each owner shall provide to us such additional information as we may request in order to determine the effect, if any, of the owner's beneficial ownership on our qualification as a REIT and to ensure compliance with our share ownership limits. In addition, each shareholder shall upon demand be required to provide to us such information as we may request, in good faith, in order to determine our qualification as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

Our share ownership limits could delay, defer or prevent a transaction or a change in our control that might involve a premium price for holders of our common shares or might otherwise be in the best interests of our shareholders.

Stock Exchange Listing

We have applied to have our common shares listed on the NYSE under the symbol "RLJ."

Transfer Agent and Registrar

The transfer agent and registrar for our common shares will be .

SHARES ELIGIBLE FOR FUTURE SALE

General

After giving effect to the completion of this offering and our formation transactions, we will have common shares outstanding. In addition, upon completion of this offering and our formation transactions, common shares may be issued upon exchange of OP units. The common shares sold in this offering (or common shares if the underwriters' overallotment option is exercised in full) will be freely transferable without restriction or further registration under the Securities Act, subject to the limitations on ownership set forth in our declaration of trust and except for any common shares purchased in this offering by our "affiliates," as that term is defined by Rule 144 under the Securities Act. The remaining common shares expected to be outstanding immediately after completion of this offering, plus any common shares purchased by affiliates in this offering, will be "restricted" securities as defined in Rule 144. In addition, upon completion of this offering, restricted shares will be granted to our our trustees, executive officers and other employees.

Our common shares are newly issued securities for which there is no established trading market. No assurance can be given as to (1) the likelihood that an active trading market for our common shares will develop or be sustained, (2) the liquidity of any such market, (3) the ability of shareholders to sell their common shares when desired or at all, or (4) the prices that shareholders may obtain for any of their common shares. No prediction can be made as to the effect, if any, that future issuances or resales of common shares, or the availability of common shares for future issuance or resale, will have on the market price of our common shares prevailing from time to time. Issuances or resales of substantial numbers of common shares, or the perception that such issuances or resales could occur, may affect adversely prevailing market price of our common shares. See "Risk Factors—Risks Related to this Offering."

For a description of certain restrictions on transfers of our common shares held by our shareholders, see "Description of Shares—Restrictions on Ownership and Transfer."

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months, is entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year is entitled to sell those shares without regard to the provisions of Rule 144.

An affiliate of ours who has beneficially owned our common shares for at least six months would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of our common shares then outstanding; or
- the average weekly trading volume of our common shares on the NYSE during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates also are subject to manner of sale provisions, notice requirements and the availability of current public information about us.

Registration Rights Agreements

Upon completion of this offering and our formation transactions, we expect to enter into registration rights agreements with the entities and individuals receiving an aggregate of common shares and OP units in connection with our formation transactions.

Under the registration rights agreement covering our common shares to be issued to investors in Fund II and Fund III in connection with our formation transactions, subject to certain exceptions, commencing 180 days after the closing of this offering we will be required, upon request from the parties subject to such registration rights agreement, to seek to register for resale the common shares issued to such parties in our formation transactions; provided, however, the holders of such common shares issued in our formation transactions collectively may not exercise such registration rights more than once in any consecutive six month period. Under such registration rights agreement, we also may be required to effect an underwritten public offering on behalf of the investors in Fund II and Fund III receiving our common shares in our formation transactions, subject to our right to participate in such underwritten public offering on the terms set forth in the registration rights agreement. We will agree to pay all expenses related to our registration obligations under such registration rights agreement, except for any brokerage and sales commission fees and disbursements of each holder's counsel, accountants and other holder's advisors, and any transfer taxes relating to the sale or disposition of our common shares by such holder.

In connection with our formation transactions, our operating partnership will issue an aggregate of OP units to RLJ Development as consideration for substantially all of its assets and liabilities. Beginning on or after the date which is 12 months after the completion of this offering, limited partners of our operating partnership and certain qualifying assignees of a limited partner have the right to require our operating partnership to redeem part or all of their OP units for cash, or, at our election, common shares on a one-for-one basis, based upon the fair market value of an equivalent number of common shares at the time of the redemption, subject to the restrictions on ownership and transfer of our shares set forth in our declaration of trust and described under the section entitled "Description of Shares—Restrictions on Ownership and Transfer." See "Description of Our Operating Partnership and Our Partnership Agreement."

Under the registration rights agreement covering our OP units to be issued to RLJ Development as consideration for substantially all of its assets and liabilities, subject to certain exceptions, we will use commercially reasonable efforts to cause to be filed a registration statement covering the resale of our common shares issuable, at our option, in exchange for OP units issued in our formation transactions. In addition, commencing 365 days after the closing of this offering, we will be required, upon request from the parties subject to such registration rights agreement, to use our commercially reasonable efforts to register for resale the common shares issued in connection with the redemption of such OP units; provided, however, the holders of such common shares issued in connection with the redemption of OP units collectively may not exercise such registration rights more than once in any consecutive six month period. Under such registration rights agreement, such holders are entitled to receive notice of any underwritten public offering on behalf of investors in Fund II and Fund III receiving our common shares in our formation transactions at least 10 business days prior to the anticipated filing date of such registration statement. Such holders may request in writing within five business days following receipt of such notice to participate in such underwritten public offering; provided that if the aggregate dollar amount or number of common shares as to which registration has been demanded exceeds the maximum dollar amount or maximum number of securities that can be sold in such offering without adversely affecting its success, the common shares issued in connection with the redemption of OP units may be excluded from such underwritten public offering.

Grants Under Our Equity Incentive Plan

We intend to adopt our equity incentive plan immediately prior to completion of this offering. Our equity incentive plan provides for the grant of incentive awards to our employees, officers, trustees and

other service providers. We intend to issue an aggregate of restricted shares to our trustees, executive officers and other employees under this plan upon completion of this offering, and intend to reserve an additional common shares for issuance under this plan.

We intend to file with the SEC a registration statement on Form S-8 covering the common shares issuable under our equity incentive plan. Common shares covered by such registration statement will be eligible for transfer or resale without restriction under the Securities Act unless held by affiliates.

Lock-Up Agreements

In addition to the limits placed on the sale of our common shares by operation of Rule 144 and other provisions of the Securities Act, we, our executive officers, trustees and trustee nominees and certain of the existing investors in Fund II and Fund III have agreed not to sell or transfer any common shares or securities convertible into, exchangeable or exercisable for (including OP units) or repayable with, common shares, subject to certain exceptions, without first obtaining the written consent of the representatives, 180 days (with respect to us, certain of our executive officers, our trustee nominees and substantially all of the existing investors in Fund II and Fund III) and one year (with respect to Messrs. Johnson, Baltimore and Bierkan) after the date of this prospectus. However, we, our executive officers, trustee and trustee nominees and other continuing investors may transfer or dispose of our shares during the 180-day or one year lock-up period, as applicable, in the case of gifts or for estate planning purposes where the transferee agrees to a similar lock-up agreement for the remainder of the 180-day or one year lock-up period, as applicable, provided that, except with respect to one of our continuing investors, no report is required to be filed by the transferor under the Exchange Act as a result of the transfer.

MATERIAL PROVISIONS OF MARYLAND LAW AND OF OUR DECLARATION OF TRUST AND BYLAWS

The following summary of certain provisions of Maryland law and our declaration of trust and bylaws, does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and to our declaration of trust and bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."

Our Board of Trustees

Our declaration of trust and bylaws provide that the number of trustees of our company may be established by our board of trustees, but may not be fewer than two nor more than 15. Our declaration of trust and bylaws provide that any vacancy, including a vacancy created by an increase in the number of trustees, may be filled only by a majority of the remaining trustees, even if the remaining trustees do not constitute a quorum. Any individual elected to fill such vacancy will serve for the remainder of the full term and until a successor is duly elected and qualifies.

Pursuant to our bylaws, each of our trustees will be elected by our shareholders to serve until the next annual meeting of shareholders and until his or her successor is duly elected and qualifies under Maryland law. Holders of our common shares will have no right to cumulative voting in the election of trustees. Trustees will be elected by a plurality of the votes cast.

Our bylaws will provide that at least a majority of our trustees must be "independent," with independence being defined in the manner established by our board of trustees and in a manner consistent with listing standards established by the NYSE.

Removal of Trustees

Our declaration of trust will provide that, subject to the rights of holders of one or more classes or series of preferred shares to elect or remove one or more trustees, a trustee may be removed only for cause (as defined in our declaration of trust) and only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of trustees and that our board of trustees has the exclusive power to fill vacant trusteeships, even if the remaining trustees do not constitute a quorum. These provisions may preclude shareholders from removing incumbent trustees and filling the vacancies created by such removal with their own nominees.

Business Combinations

Under provisions of the MGCL that apply to Maryland real estate investment trusts, certain "business combinations" (including a merger, consolidation, share exchange or, in certain circumstances specified under the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland real estate investment trust and any interested shareholder, or an affiliate of such an interested shareholder, are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. Maryland law defines an interested shareholder as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the trust's outstanding voting shares; or
- an affiliate or associate of the trust who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then-outstanding voting shares of the trust.

A person is not an interested shareholder under the statute if the board of trustees approves in advance the transaction by which the person otherwise would have become an interested shareholder. In approving a transaction, however, the board of trustees may provide that its approval is subject to

compliance at or after the time of the approval, with any terms and conditions determined by the board of trustees.

After the five-year prohibition, unless, among other conditions, the trust's common shareholders receive a minimum price (as described under Maryland law) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its shares, any business combination between the trust and an interested shareholder generally must be recommended by the board of trustees and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares of the trust; and
- two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom (or with whose affiliate) the business combination is to be effected or shares held by an affiliate or associate of the interested shareholder.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a trust's board of trustees prior to the time that the interested shareholder becomes an interested shareholder. Our board of trustees, pursuant to the statute, has determined to opt out of the business combination provisions of the MGCL and, consequently, the five-year prohibition and, accordingly, the supermajority vote requirements will not apply to business combinations between us and an interested shareholder, unless our board in the future alters or repeals this resolution. As a result, any person who later becomes an interested shareholder may be able to enter into business combinations with our company without compliance by us with the supermajority vote requirements and the other provisions of the statute.

We cannot assure you that our board of trustees will not determine to become subject to such business combination provisions in the future. However, an alteration or repeal of the resolution of our board of trustees will not have any effect on any business combinations that have been consummated or upon any agreements existing at the time of such modification or repeal.

Control Share Acquisitions

Maryland law provides that "control shares" of a Maryland real estate investment trust acquired in a "control share acquisition" have no voting rights except to the extent approved at a special meeting of shareholders by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding shares in a Maryland real estate investment trust in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of such shares in the election of trustees: (1) a person who makes or proposes to make a control share acquisition; (2) an officer of the trust; or (3) an employee of the trust who is also a trustee of the trust. "Control shares" are voting shares that, if aggregated with all other such shares previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing trustees within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A "control share acquisition" means the acquisition, directly or indirectly, of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses and making an "acquiring person statement" as described in the MGCL), may compel our board of trustees to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the control shares. If no request for a special meeting is made, we may present the question at any shareholders meeting.

If voting rights of control shares are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by Maryland law, then, subject to certain conditions and limitations, the trust may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of shareholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a shareholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights, unless appraisal rights are eliminated under the declaration of trust. Our declaration of trust eliminates all appraisal rights of shareholders. The control share acquisition statute does not apply (1) to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction or (2) to acquisitions approved or exempted by the declaration of trust or bylaws of the trust.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our common shares. There is no assurance, however, that our board of trustees will not amend or eliminate such provision at any time in the future.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland real estate investment trust with a class of equity securities registered under the Exchange Act and at least three independent trustees to elect to be subject, by provision in its declaration of trust or bylaws or a resolution of its board of trustees and notwithstanding any contrary provision in the declaration of trust or bylaws, to any or all of the following five provisions:

- a classified board;
- a two-thirds shareholder vote requirement for removing a trustee;
- a requirement that the number of trustees be fixed only by vote of the trustees;
- a requirement that a vacancy on the board be filled only by the remaining trustees and for the remainder of the full term of the class of trustees in which the vacancy occurred; and
- a requirement that requires the request of the holders of at least a majority of all votes entitled to be cast to call a special meeting of shareholders.

Our declaration of trust will provide that, at such time as we become eligible to make a Subtitle 8 election, we elect to be subject to the provisions of Subtitle 8 relating to the filling of vacancies on our board of trustees. Through provisions in our declaration of trust and bylaws unrelated to Subtitle 8, we will also (1) require the affirmative vote of the holders of not less than two-thirds of all of the votes entitled to be cast on the matter for the removal of any trustee from our board, which removal will be allowed only for cause, (2) vest in our board the exclusive power to fix the number of trusteeships, subject to limitations set forth in our declaration of trust and bylaws, and fill vacancies and (3) require, unless called by the Executive Chairman of our board of trustees, the President or Chief Executive Officer or our board of trustees, the written request of shareholders entitled to cast a majority of all votes entitled to be cast at such meeting to call a special meeting. We have not elected to create a

classified board. In the future, our board of trustees may elect, without shareholder approval, to create a classified board or adopt one or more of the other provisions of Subtitle 8.

Amendment of Our Declaration of Trust and Bylaws and Approval of Extraordinary Transactions

Under the Maryland REIT law, a Maryland real estate investment trust generally cannot amend its declaration of trust or merge with another entity unless declared advisable by a majority of the board of trustees and approved by the affirmative vote of shareholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter, is set forth in the real estate investment trust's declaration of trust. Our declaration of trust provides that such actions (other than certain amendments to the provisions of our declaration of trust related to the removal of trustees, the restrictions on ownership and transfer of our shares and termination of the trust) may be taken if declared advisable by a majority of our board of trustees and approved by the vote of shareholders holding a majority of the votes entitled to be cast on the matter.

Our board of trustees will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

Meetings of Shareholders

Under our bylaws, annual meetings of shareholders will be held each year at a date and time as determined by our board of trustees. Special meetings of shareholders may be called only by a majority of the trustees then in office, by the executive chairman of our board of trustees, our president or our chief executive officer. Additionally, subject to the provisions of our bylaws, special meetings of the shareholders shall be called by our secretary upon the written request of shareholders entitled to cast at least a majority of the votes entitled to be cast at such meeting. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting. Maryland law and our bylaws provide that any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting by unanimous written consent, if that consent sets forth that action and is signed by each shareholder entitled to vote on the matter.

Advance Notice of Trustee Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of shareholders, nominations of persons for election to our board of trustees and the proposal of business to be considered by shareholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of our board of trustees; or
- by a shareholder who was a shareholder of record both at the time of giving of the notice of the meeting and at the time of the annual meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of shareholders, only the business specified in our notice of meeting may be brought before the meeting of shareholders. Nominations of persons for election to our board of trustees may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of our board of trustees; or
- provided that our board of trustees has determined that trustees shall be elected at such meeting, by a shareholder who is a shareholder of record both at the time of giving of the notice

required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions set forth in our bylaws.

The purpose of requiring shareholders to give advance notice of nominations and other proposals is to afford our board of trustees the opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposals and, to the extent considered necessary by our board of trustees, to inform shareholders and make recommendations regarding the nominations or other proposals. The advance notice procedures also permit a more orderly procedure for conducting our shareholder meetings. Although our bylaws will not give our board of trustees the power to disapprove timely shareholder nominations and proposals, our bylaws may have the effect of precluding a contest for the election of trustees or proposals for other action if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of trustees to our board of trustees or to approve its own proposal.

Anti-takeover Effect of Certain Provisions of Maryland Law and Our Declaration of Trust and Bylaws

The provisions of our declaration of trust on removal of trustees and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change in control of our company that might involve a premium price for holders of our common shares or otherwise be in the best interests of our shareholders. Likewise, if our board of trustees were to opt into the business combination provisions of the MGCL or certain of the provisions of Subtitle 8 of Title 3 of the MGCL, or if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were amended or rescinded, these provisions of the MGCL could have similar anti-takeover effects.

Indemnification and Limitation of Trustees' and Officers' Liability

The Maryland REIT law permits a Maryland real estate investment trust to include in its declaration of trust a provision limiting the liability of its trustees and officers to the trust and its shareholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our declaration of trust will contain such a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The Maryland REIT law permits a Maryland real estate investment trust to indemnify and advance expenses to its trustees, officers, employees and agents to the same extent as permitted by the MGCL for directors and officers of a Maryland corporation. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or if the director or officer was adjudged liable on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses.

In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by such director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by such director or officer or on such director's or officer's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the director did not meet the standard of conduct.

Our declaration of trust and bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former trustee or officer (including any individual who, at our request, serves or has served as a director, trustee, officer, partner, member, employee or agent of another real estate investment trust, corporation, partnership, company, joint venture, trust, employee benefit plan or any other enterprise) against any claim or liability to which he or she may become subject by reason of service in such capacity; and
- any present or former trustee or officer who has been successful in the defense of a proceeding to which he or she was made a party by reason of service in such capacity.

Our declaration of trust and bylaws also permit us, with the approval of our board of trustees, to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

In addition, upon completion of this offering, we intend to enter into indemnification agreements with each of our trustees and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

Insofar as the foregoing provisions permit indemnification of trustees, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Share Ownership Limits

Subject to certain exceptions, our declaration of trust provides that no person or entity (other than a person or entity who has been granted an exception) may directly or indirectly, beneficially or constructively, own more than 9.8% of the aggregate of our outstanding common shares, by value or by number of shares, whichever is more restrictive, or 9.8% of the aggregate of the outstanding preferred shares of any class or series, by value or by number of shares, whichever is more restrictive. For more information regarding these restrictions and the constructive ownership rules, see "Description of Shares—Restrictions on Ownership and Transfer."

REIT Qualification

Our declaration of trust provides that our board of trustees may revoke or otherwise terminate our REIT election, without approval of our shareholders, if we determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

DESCRIPTION OF OUR OPERATING PARTNERSHIP AND OUR PARTNERSHIP AGREEMENT

We have summarized the material terms and provisions of the Amended and Restated Agreement of Limited Partnership of RLJ Lodging Trust, L.P., which we refer to as the "partnership agreement." This summary is not complete. For more detail, you should refer to the partnership agreement itself, a copy of which is filed as an exhibit to the registration statement of which this prospectus is a part. See "Where You Can Find More Information." For purposes of this section, references to "we," "our," "us" and "our company" refer to RLJ Lodging Trust.

General

RLJ Lodging Trust, L.P., our operating partnership, was formed on January 31, 2011 to acquire, own and operate our assets. We are considered to be an UPREIT in which all of our assets are owned in a limited partnership, our operating partnership, of which we are the sole general partner. For purposes of satisfying the asset and income tests for qualification as a REIT for U.S. federal income tax purposes, our proportionate share of the assets and income of our operating partnership will be deemed to be our assets and income. We will conduct substantially all of our business through our operating partnership and its subsidiaries, and we are liable for its obligations.

Our operating partnership is structured to make distributions with respect to OP units that will be equivalent to the distributions made to our common shareholders. The partnership agreement will permit limited partners in our operating partnership to redeem their OP units for cash or, at our election, our common shares on a one-for-one basis (in a taxable transaction) beginning one year after the date of issuance, which will enable limited partners, if our shares are then listed, to achieve liquidity for their investment.

We are the sole general partner of our operating partnership, and, upon completion of this offering and our formation transactions, we will own approximately % of the OP units in our operating partnership. Except as otherwise expressly provided in the partnership agreement, we, as the sole general partner, have the exclusive power to manage and conduct the business of our operating partnership. The limited partners of our operating partnership have no authority in their capacity as limited partners to transact business for, or participate in the management activities or decisions of, our operating partnership except as required by applicable law. Consequently, we, as general partner, have full power and authority to do all things we deem necessary or desirable to conduct the business of our operating partnership, as described below. The limited partners have no power to remove us as general partner as long as our shares are publicly traded.

Capital Contributions

We will transfer substantially all of the net proceeds of this offering to our operating partnership as a capital contribution in the amount of the gross offering proceeds received from investors, and we will receive a number of OP units equal to the number of common shares issued to investors. Our operating partnership will be deemed to have simultaneously paid the selling commissions and other costs associated with this offering. If our operating partnership requires additional funds at any time in excess of capital contributions made by us or from borrowing, we may borrow funds from a financial institution or other lender and lend such funds to our operating partnership on the same terms and conditions as are applicable to our borrowing of such funds. In addition, we are authorized to cause our operating partnership to issue OP units for less than fair market value if we conclude in good faith that such issuance is in the best interest of our operating partnership and our shareholders.

Operations

The partnership agreement requires that our operating partnership be operated in a manner that will enable us to (1) satisfy the requirements for classification as a REIT for U.S. federal income tax

purposes, (2) avoid any U.S. federal income or excise tax liability and (3) ensure that our operating partnership will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Code, which classification could result in our operating partnership being taxed as a corporation, rather than as a partnership.

Distributions

The partnership agreement requires that our operating partnership distribute available cash to its partners on at least a quarterly basis in accordance with their relative percentage interests or specified preferences, if any. Available cash is all cash revenues and funds received plus any reduction in reserves and minus interest and principal payments on debt, all cash expenditures (including capital expenditures), investments in any entity, any additions to reserves and other adjustments, as determined by us in our sole and absolute discretion. Distributions will be made in a manner such that a holder of one OP unit will receive the same amount of distributions from our operating partnership as the amount paid by us to a holder of one common share.

Unless we otherwise specifically agree in the partnership agreement or in an agreement entered into at the time a new class or series is created, no OP unit will be entitled to a distribution in preference to any other OP unit. A partner will not in any event receive a distribution of available cash with respect to an OP unit for a quarter or shorter period if the partner is entitled to receive a distribution out of that same available cash with respect to a share of our company for which that OP unit has been exchanged or redeemed.

Upon the liquidation of our operating partnership, after payment of debts and obligations, any remaining assets of our operating partnership will be distributed to the holders of the OP units that are entitled to any preference in distribution upon liquidation in accordance with the rights of any such class or series, and the balance, if any, will be distributed to the partners in accordance with their capital accounts, after giving effect to all contributions, distributions and allocations for all periods.

Allocations of Net Income and Net Loss

Net income and net loss of our operating partnership are determined and allocated with respect to each fiscal year of our operating partnership. Except as otherwise provided in the partnership agreement, an allocation of a share of net income or net loss is treated as an allocation of the same share of each item of income, gain, loss or deduction that is taken into account in computing net income or net loss. Except as otherwise provided in the partnership agreement, net income and net loss are allocated to the general partner and the other holders of the OP units in accordance with their respective percentage interests in the OP units at the end of each fiscal year. Upon the occurrence of certain specific events or a later issuance of additional LTIP units, our operating partnership will revalue its assets and any net increase in valuation will be allocated first to holders of LTIP units, if any, to equalize the capital accounts of such holders with the capital accounts of OP unit holders. The partnership agreement contains provisions for special allocations intended to comply with certain regulatory requirements, including the requirements of Treasury Regulations Sections 1.704-1(b), 1.704-2 and 1.752-3(a). See "Material U.S. Federal Income Tax Considerations."

LTIP Units

Following this offering, we may at any time cause our operating partnership to issue LTIP units to members of our senior management team. These LTIP units will vest on such terms as determined by our compensation committee. In general, LTIP units are a special class of OP units in our operating partnership and will receive the same quarterly per unit profit distributions as the other outstanding OP units in our operating partnership. Initially, each LTIP unit will have a capital account of zero and, therefore, the holder of the LTIP unit would receive nothing if our operating partnership were

liquidated immediately after the LTIP unit is awarded. However, the partnership agreement requires that "book gain" or economic appreciation in our assets realized by our operating partnership, whether as a result of an actual asset sale or upon the revaluation of our assets, as permitted by applicable Treasury Regulations, be allocated first to LTIP units until the capital account per LTIP unit is equal to the capital account per unit of our operating partnership. The applicable Treasury Regulations provide that assets of our operating partnership may be revalued upon specified events, including upon additional capital contributions by us or other partners of our operating partnership or a later issuance of additional LTIP units. Upon equalization of the capital account of the LTIP unit with the per unit capital account of the OP units and full vesting of the LTIP unit, the LTIP unit will be convertible into an OP unit at any time. There is a risk that a LTIP unit will never become convertible because of insufficient gain realization to equalize capital accounts and, therefore, the value that a holder will realize for a given number of vested LTIP units may be less than the value of an equal number of common shares.

Transfers

We, as general partner, generally may not transfer any of our OP units in our operating partnership, including any of our limited partner interests, or voluntarily withdraw as the general partner of our operating partnership, except in connection with a merger, consolidation or other combination with or into another person, a sale of all or substantially all of our assets or any reclassification, recapitalization or change of our outstanding shares.

With certain limited exceptions, the limited partners may not transfer their interests in our operating partnership, in whole or in part, without our prior written consent, which consent may be withheld in our sole and absolute discretion. We also have the right to prohibit transfers by limited partners under certain circumstances if it would have certain adverse tax consequences to us or our operating partnership.

Except with our consent to the admission of the transferee as a limited partner, no transferee shall have any rights by virtue of the transfer other than the rights of an assignee, and will not be entitled to vote OP units in any matter presented to the limited partners for a vote. We, as general partner, will have the right to consent to the admission of a transferee of the interest of a limited partner, which consent may be given or withheld by us in our sole and absolute discretion.

Mergers and Sales of Assets

We may engage in a merger, consolidation or other combination transaction, or sell, exchange, transfer or otherwise dispose of all or substantially all of our assets, only if the transaction has been approved by the consent of the partners holding OP units representing more than 50% of the percentage interests (as defined in the partnership agreement) entitled to vote thereon, including any OP units held by us, and in connection with such transaction all limited partners have the right to receive consideration which, on a per unit basis, is equivalent in value to the consideration to be received by our shareholders, on a per share basis, and such other conditions are met that are expressly provided for in the partnership agreement. In addition, we may engage in a merger, consolidation or other combination with or into another person where following the completion of such transaction, the equity holders of the surviving entity are substantially identical to our shareholders.

Redemption Right

As a general rule, limited partners will have the right to cause our operating partnership to redeem their OP units at any time beginning one year following the date of the issuance of the OP units held by any such limited partner. If we give the limited partners notice of our intention to make an extraordinary distribution of cash or property to our shareholders or effect a merger, a sale of all or

substantially all of our assets, or any other similar extraordinary transaction, each limited partner may exercise its right to redeem its OP units, regardless of the length of time such limited partner has held its OP units.

Unless we elect to assume and perform our operating partnership's obligation with respect to the unit redemption right, as described below, a limited partner exercising a unit redemption right will receive cash from our operating partnership in an amount equal to the market value of our common shares for which the OP units would have been redeemed if we had assumed and satisfied our operating partnership's obligation by paying the redemption amount in our common shares, as described below. The market value of our common shares for this purpose (assuming a market then exists) will be equal to the average of the closing trading price of our common shares on the NYSE for the 10 trading days before the day on which we received the redemption notice.

We have the right to elect to acquire the OP units being redeemed directly from a limited partner in exchange for either cash in the amount specified above or a number of our common shares equal to the number of OP units offered for redemption, adjusted as specified in the partnership agreement to take into account prior share dividends or any subdivisions or combinations of our common shares. As general partner, we will have the sole discretion to elect whether the redemption right will be satisfied by us in cash or our common shares. No redemption or exchange can occur if delivery of common shares by us would be prohibited either under the provisions of our declaration of trust or under applicable federal or state securities laws, in each case regardless of whether we would in fact elect to assume and satisfy the unit redemption right with shares.

Issuance of Additional Partnership Interests

We, as general partner, are authorized to cause our operating partnership to issue additional OP units or other partnership interests to its partners, including us and our affiliates, or other persons. These OP units may be issued in one or more classes or in one or more series of any class, with designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior to one or more other classes of partnership interests (including OP units held by us), as determined by us in our sole and absolute discretion without the approval of any limited partner, subject to the limitations described below.

No OP unit or interest may be issued to us as general partner or limited partner unless:

- our operating partnership issues OP units or other partnership interests in connection with the grant, award or issuance of shares or other equity interests in us having designations, preferences and other rights such that the economic interests attributable to the newly issued shares or other equity interests in us are substantially similar to the designations, preferences and other rights, except voting rights, of the OP units or other partnership interests issued to us, and we contribute to our operating partnership the proceeds from the issuance of the shares or other equity interests received by us; or

- our operating partnership issues the additional OP units or other partnership interests to all partners holding OP units or other partnership interests in the same class in proportion to their respective percentage interests in that class.

Indemnification and Limitation of Liability

The partnership agreement expressly limits our liability by providing that neither we, as the general partner of our operating partnership, nor any of our trustees or officers, will be liable or accountable in damages to our operating partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee or officer, acted in good faith. In addition, our operating partnership is required to indemnify us, and our officers, trustees,

employees, agents and designees to the fullest extent permitted by applicable law from and against any and all claims arising from operations of our operating partnership, unless it is established that (1) the act or omission was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, (2) the indemnified party actually received an improper personal benefit in money, property or services or (3) in the case of a criminal proceeding, the indemnified person had reasonable cause to believe that the act or omission was unlawful. Our operating partnership also must pay or reimburse the reasonable expenses of any such person upon its receipt of a written affirmation of the person's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay any amounts paid or advanced if it is ultimately determined that the person did not meet the standard of conduct for indemnification.

Amendment of Partnership Agreement

Amendments to the partnership agreement may be proposed by us, as general partner, or by any limited partner holding partnership interests representing 25% or more of the percentage interests entitled to vote thereon. In general, the partnership agreement may be amended only with the approval of the general partner and the written consent of the partners holding partnership interests representing more than 50% of the percentage interests entitled to vote thereon. However, as general partner, we will have the power, without the consent of the limited partners, to amend the partnership agreement as may be required:

- to add to our obligations as general partner or surrender any right or power granted to us as general partner or any affiliate of ours for the benefit of the limited partners;
- to reflect the admission, substitution, termination or withdrawal of partners in compliance with the partnership agreement;
- to set forth the designations, rights, powers, duties and preferences of the holders of any additional partnership interests issued in accordance with the authority granted to us as general partner;
- to reflect a change that does not adversely affect the limited partners in any material respect, or to cure any ambiguity, correct or supplement any provision in the partnership agreement not inconsistent with law or with other provisions of the partnership agreement, or make other changes with respect to matters arising under the partnership agreement that will not be inconsistent with law or with the provisions of the partnership agreement;
- to modify the manner in which capital accounts are computed;
- to include provisions referenced in future U.S. federal income tax guidance relating to compensatory partnership interests that we determine are reasonably necessary in respect of such guidance; and
- to satisfy any requirements, conditions or guidelines contained in any order, directive, opinion, ruling or regulation of a federal, state or local agency or contained in federal, state or local law.

The approval of a majority of the partnership interests held by limited partners other than us is necessary to amend provisions regarding, among other things:

- the issuance of partnership interests in general and the restrictions imposed on the issuance of additional partnership interests to us in particular;
- the prohibition against removing us as general partner by the limited partners;
- restrictions on our power to conduct businesses other than owning partnership interests of our operating partnership and the relationship of our common shares to OP units;

- limitations on transactions with affiliates;
- our liability as general partner for monetary or other damages to our operating partnership;
- partnership consent requirements for the sale or other disposition of substantially all the assets of our operating partnership; or
- the transfer of partnership interests held by us or the dissolution of our operating partnership.

Amendments to the partnership agreement that would, among other things, (1) convert a limited partner's interest into a general partner's interest, (2) modify the limited liability of a limited partner, (3) alter the interest of a partner in profits or losses, or the right to receive any distributions, except as permitted under the partnership agreement with respect to the admission of new partners or the issuance of additional OP units, or (4) materially alter the unit redemption right of the limited partners, must be approved by each affected limited partner or any assignee who is a bona fide financial institution that loans money or otherwise extends credit to a holder of OP units or partnership interests that would be adversely affected by the amendment.

Term

Our operating partnership will continue until dissolved pursuant to the partnership agreement or as otherwise provided by law.

Tax Matters

Pursuant to the partnership agreement, the general partner is the tax matters partner of our operating partnership. Accordingly, through our role as the general partner of our operating partnership, we have authority to make tax elections under the Code on behalf of our operating partnership, and to take such other actions as permitted under the partnership agreement.

Conflicts of Interest

Conflicts of interest exist or could arise in the future as a result of our relationships with our operating partnership or any limited partner of our operating partnership. Our trustees and officers have duties to our company and our shareholders under applicable Maryland law in connection with their management of our company. At the same time, we, as sole general partner, have fiduciary duties to our operating partnership and to its limited partners under Delaware law in connection with the management of our operating partnership. Our duties as sole general partner to our operating partnership and its partners may come into conflict with the duties of our trustees and officers to our company and our shareholders.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a discussion of the material U.S. federal income tax considerations relating to the qualification and taxation of RLJ Lodging Trust as a REIT and the ownership and disposition of the common shares of our company. As used in this section, references to the terms "Company," "we," "our," and "us" mean only RLJ Lodging Trust, and not its subsidiaries or other lower-tier entities, except as otherwise indicated. This summary is based upon the Code, the Treasury regulations, rulings and other administrative interpretations and practices of the IRS (including administrative interpretations and practices expressed in private letter rulings which are binding on the IRS only with respect to the particular taxpayers who requested and received those rulings), and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. We have not sought and will not seek an advance ruling from the IRS regarding any matter discussed in this section. The summary is also based upon the assumption that we will operate our company and its subsidiaries and affiliated entities in accordance with their applicable organizational documents. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances, or to investors subject to special tax rules, including:

- tax-exempt organizations;
- broker-dealers;
- traders in securities that elect to mark to market;
- trusts, estates, regulated investment companies, real estate investment trusts, financial institutions, insurance companies or S corporations;
- investors subject to the alternative minimum tax provisions of the Code;
- investors that hold their common shares as part of a "hedge," "straddle," "conversion transaction," "synthetic security," or other integrated investment;
- investors that hold their common shares through a partnership or similar pass-through entity;
- a person with a "functional currency" other than the U.S. dollar;
- a U.S. expatriate; or
- investors who are otherwise subject to special tax treatment under the Code.

This summary does not address state, local or non-U.S. tax considerations and assumes that shareholders will hold our common shares as a capital asset, which generally means as property held for investment.

The U.S. federal income tax treatment of holders of our common shares depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular shareholder of holding our common shares will depend on the shareholder's particular tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local, and foreign income and other tax consequences to you in light of your particular investment or tax circumstances of acquiring, holding, exchanging, or otherwise disposing of our common shares.

The discussion set forth herein is not intended to be, and should not be construed as, tax advice.

Taxation of our Company

We intend to elect to be taxed as a REIT, commencing with our short taxable year commencing at the time of this offering and ending December 31, 2011, upon the filing of our U.S. federal income tax return for such year. We believe that we will have been organized, and expect to operate, in such a manner as to qualify for taxation as a REIT.

The law firm of Hogan Lovells US LLP has acted as our tax counsel in connection with this offering. We expect to receive an opinion of Hogan Lovells US LLP to the effect that, commencing with our short taxable year ending December 31, 2011, we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. It must be emphasized that the opinion of Hogan Lovells US LLP will be based on various assumptions relating to our organization and operation, will be conditioned upon factual representations and covenants made by our management regarding our organization, assets, income, the present and future conduct of our business operations, and other items regarding our ability to meet the various requirements for qualification as a REIT, and will assume that such representations and covenants are accurate and complete and that we will take no action inconsistent with our qualification as a REIT. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by Hogan Lovells US LLP or by us that we will qualify as a REIT for any particular year. The opinion will be expressed as of the date issued. Hogan Lovells US LLP will have no obligation to advise us or our shareholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions. Hogan Lovells US LLP's opinion does not foreclose the possibility that we may have to utilize one or more of the REIT savings provisions discussed below, which could require us to pay an excise or penalty tax (which could be significant in amount) in order for us to maintain our REIT qualification.

Qualification and taxation as a REIT depends on our ability to meet on a continuing basis, through actual operating results, distribution levels, and diversity of share and asset ownership, various qualification requirements imposed upon REITs by the Code, the compliance with which will not be reviewed by Hogan Lovells US LLP. In addition, our ability to qualify as a REIT may depend in part upon the operating results, organizational structure and entity classification for U.S. federal income tax purposes of certain entities in which we invest, which entities will not have been reviewed by Hogan Lovells US LLP. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets that we own directly or indirectly. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

Taxation of REITs in General

As indicated above, our qualification and taxation as a REIT depend upon our ability to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Code. The material qualification requirements are summarized below under "—Requirements for Qualification as a REIT." While we intend to operate so that we qualify as a REIT, no assurance can be given that the IRS will not challenge our qualification, or that we will be able to operate in accordance with the REIT requirements in the future. See "—Failure to Qualify as a REIT."

Provided that we qualify as a REIT, we will be entitled to a deduction for dividends that we pay and, therefore, will not be subject to U.S. federal corporate income tax on our taxable income that is

currently distributed to our shareholders. This treatment substantially eliminates the "double taxation" at the corporate and shareholder levels that generally results from investment in a corporation. In general, income generated by a REIT is taxed only at the shareholder level upon a distribution of dividends by the REIT to its shareholders.

For tax years through 2012, most shareholders who are individual U.S. shareholders (as defined below) are taxed on corporate dividends at a maximum rate of 15% (the same as long-term capital gains). With limited exceptions, however, dividends received by individual U.S. shareholders from us or from other entities that are taxed as REITs are taxed at rates applicable to ordinary income, which are as high as 35% through 2012 (and, in the absence of legislative action, will be as high as 39.6% starting in 2013). See "—Taxation of Shareholders—Taxation of Taxable U.S. Shareholders—Distributions Generally."

Any net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to our shareholders, subject to special rules for certain items such as the capital gains that we recognize. See "—Taxation of Shareholders."

Even if we qualify for taxation as a REIT, we will be subject to U.S. federal income tax in the following circumstances:

- We will be taxed at regular U.S. federal corporate rates on any undistributed "REIT taxable income," including undistributed net capital gains, for any taxable year. REIT taxable income is the taxable income of the REIT subject to specified adjustments, including a deduction for dividends paid.

- We (or our shareholders) may be subject to the "alternative minimum tax" on our items of tax preference, if any.

- If we have net income from prohibited transactions, which are, in general, sales or other dispositions of inventory or property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% tax. See "—Requirements for Qualification as a REIT—Gross Income Tests—Income from Prohibited Transactions," and "—Requirements for Qualification as a REIT—Gross Income Tests—Income from Foreclosure Property."

- If we elect to treat property that we acquire in connection with certain leasehold terminations or a foreclosure of a mortgage loan as "foreclosure property," we may thereby avoid (1) the 100% prohibited transactions tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction); and (2) the inclusion of any income from such property as nonqualifying income for purposes of the REIT gross income tests discussed below. Income from the sale or operation of the property may be subject to U.S. federal corporate income tax at the highest applicable rate (currently 35%).

- If we fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but our failure is due to reasonable cause and not due to willful neglect and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be subject to a 100% tax on an amount equal to (1) the greater of (a) the amount by which we fail the 75% gross income test or (b) the amount by which we fail the 95% gross income test, as the case may be, multiplied by (2) a fraction intended to reflect our profitability.

- If we violate the asset tests (other than certain de minimis violations) or other requirements applicable to REITs, as described below, but our failure is due to reasonable cause and not due to willful neglect and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to at least $50,000 per failure, which, in the case of certain asset test failures, will be determined as the amount of net income generated by

the assets in question multiplied by the highest corporate tax rate (currently 35%) if that amount exceeds $50,000 per failure.

- If we fail to distribute during each calendar year at least the sum of (1) 85% of our REIT ordinary income for such year, (2) 95% of our REIT capital gain net income for such year, and (3) any undistributed taxable income from prior periods (or, collectively, the required distribution), we will be subject to a non-deductible 4% excise tax on the excess of the required distribution over the sum of (a) the amounts that we actually distributed (taking into account excess distributions from prior years), plus (b) retained amounts upon which we paid income tax at the corporate level.

- We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of our shareholders, as described below under "—Requirements for Qualification as a REIT."

- We will be subject to a 100% penalty tax on amounts we receive (or on certain expenses deducted by a taxable REIT subsidiary) if certain arrangements among us, our tenants and any TRSs we own are not comparable to similar arrangements among unrelated parties.

- If we acquire appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we will be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize gain on a disposition of any such assets during the 10-year period following their acquisition from the subchapter C corporation. The results described in this paragraph assume that the non-REIT corporation will not elect, in lieu of this treatment, to be subject to an immediate tax when the asset is acquired by us.

- We may elect to retain and pay U.S. federal income tax on our net long-term capital gain. In that case, a shareholder would include its proportionate share of our undistributed long-term capital gain (to the extent we make a timely designation of such gain to the shareholder) in its income, would be deemed to have paid the tax we paid on such gain, and would be allowed a credit for its proportionate share of the tax deemed to have been paid, and an adjustment would be made to increase the shareholder's tax basis in our common shares.

- The earnings of any subsidiaries that are subchapter C corporations, including any taxable REIT subsidiaries (as defined below), are subject to U.S. federal corporate income tax.

Notwithstanding our qualification as a REIT, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property and other taxes on our assets, operations and net worth. We could also be subject to tax in other situations and on transactions not presently contemplated.

Requirements for Qualification as a REIT

The Code defines a REIT as a corporation, trust or association:

(1) that is managed by one or more trustees or directors;

(2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(3) that would be taxable as a domestic corporation but for sections 856 through 860 of the Code;

(4) that is neither a financial institution nor an insurance company subject to applicable provisions of the Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) during the last half of each taxable year not more than 50% in value of the outstanding shares of which is owned directly or indirectly by five or fewer "individuals" (as defined in the Code to include certain entities and as determined by applying certain attribution rules);

(7) that makes an election to be taxable as a REIT, or has made this election for a previous taxable year which has not been revoked or terminated, and satisfies all of the relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT qualification;

(8) that uses a calendar year for U.S. federal income tax purposes;

(9) that meets other tests described below, including with respect to the nature of its income and assets; and

(10) that has no earnings and profits from any non-REIT taxable year at the close of any taxable year.

The Code provides that conditions (1), (2), (3) and (4) must be met during the entire taxable year, and condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Conditions (5) and (6) need not be satisfied during a corporation's initial tax year as a REIT (which, in our case, will be 2011). Our declaration of trust provides restrictions regarding the ownership and transfers of our shares, which are intended to assist us in satisfying the share ownership requirements described in conditions (5) and (6) above. For purposes of condition (6), an "individual" generally includes a supplemental unemployment compensation benefit plan, a private foundation or a portion of a trust permanently set aside or used exclusively for charitable purposes. However, a trust that is a qualified trust under Code Section 401(a) generally is not considered an individual, and beneficiaries of a qualified trust are treated as holding shares of a REIT in proportion to their actual interests in the trust for purposes of condition (6) above.

To monitor compliance with the share ownership requirements, we are generally required to maintain records regarding the actual ownership of our shares. To do so, we must demand written statements each year from the record holders of significant percentages of our shares pursuant to which the record holders must disclose the actual owners of the shares (i.e., the persons required to include in gross income the dividends paid by us). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. A shareholder that fails or refuses to comply with the demand is required by Treasury regulations to submit a statement with its tax return disclosing the actual ownership of our shares and other information.

We will elect to be treated as a REIT for U.S. federal income tax purposes with respect to our short taxable year ending December 31, 2011, when we file our U.S. federal income tax return for such short taxable year in satisfaction of condition (7). To satisfy requirement (8), we have adopted December 31 as our year end. We will have no earnings and profits from a non-REIT year in satisfaction of condition (10).

The Code provides relief from violations of the REIT gross income requirements, as described below under "—Gross Income Tests," in cases where a violation is due to reasonable cause and not to willful neglect, and other requirements are met, including the payment of a penalty tax that is based upon the magnitude of the violation. In addition, certain provisions of the Code extend similar relief in the case of certain violations of the REIT asset requirements (see "—Asset Tests" below) and other REIT requirements, again provided that the violation is due to reasonable cause and not willful

neglect, and other conditions are met, including the payment of a penalty tax. If we fail to satisfy any of the various REIT requirements, there can be no assurance that these relief provisions would be available to enable us to maintain our qualification as a REIT, and, if such relief provisions are available, the amount of any resultant penalty tax could be substantial.

Effect of Subsidiary Entities

Ownership of Partnerships

All of our initial hotels are owned through subsidiaries of our operating partnership. We intend that our operating partnership will qualify as a partnership for U.S. federal income tax purposes. In the case of a REIT that is a partner in an entity that is treated as a partnership for U.S. federal income tax purposes, Treasury regulations provide that the REIT is deemed to own its proportionate share of the partnership's assets, and to earn its proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs, as described below. A REIT's proportionate share of a partnership's assets and income is based on the REIT's pro rata share of the capital interests in the partnership. However, solely for purposes of the 10% value test, described below, the determination of a REIT's interest in partnership assets is based on the REIT's proportionate interest in the equity and certain debt securities issued by the partnership. In addition, the assets and gross income of the partnership are deemed to retain the same character in the hands of the REIT. Thus, our proportionate share of the assets and items of income of any subsidiary partnerships will be treated as our assets and items of income for purposes of applying the REIT requirements.

Any investment in partnerships involves special tax considerations, including the possibility of a challenge by the IRS of the status of any subsidiary partnership as a partnership, as opposed to an association taxable as a corporation, for U.S. federal income tax purposes. If any such entity were treated as an association for U.S. federal income tax purposes, it would be taxable as a corporation and therefore could be subject to an entity-level tax on its income. In such a situation, the character of our assets and items of gross income would change and could preclude us from satisfying the REIT asset tests or the gross income tests as discussed in "—Asset Tests" and "—Gross Income Tests," and in turn could prevent us from qualifying as a REIT, unless we are eligible for relief from the violation pursuant to relief provisions. See "—Gross Income Tests," "—Asset Tests," and "—Failure to Qualify as a REIT," below, for a discussion of the effect of the failure to satisfy the REIT tests for a taxable year, and of the relief provisions. In addition, any change in the status of any subsidiary partnership for tax purposes might be treated as a taxable event, in which case we could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

Pursuant to Treasury regulations under Section 7701 of the Code, a partnership will be treated as a partnership for U.S. federal income tax purposes unless it elects to be treated as a corporation or would be treated as a corporation because it is a "publicly-traded partnership."

Neither our operating partnership nor any of its non-corporate subsidiaries that are not TRSs or Qualified REIT Subsidiaries, or QRSs, has elected or will elect to be treated as a corporation. Therefore, subject to the disclosure below, our operating partnership and each subsidiary that is not a TRS or QRS (or REIT, to the extent the operating partnership has REIT subsidiaries) will be treated as either a disregarded entity or as a partnership for U.S. federal income tax purposes.

Pursuant to Section 7704 of the Code, a partnership that does not elect to be treated as a corporation nevertheless will be treated as a corporation that is not a TRS, QRS or REIT for federal income tax purposes if it is a "publicly-traded partnership" and it does not derive at least 90% of its gross income from certain specified sources of "qualifying income" within the meaning of that section. A "publicly-traded partnership" is any partnership (1) the interests in which are traded on an established securities market or (2) the interests in which are readily tradable on a "secondary market or the "substantial equivalent thereof." To the extent we have unaffiliated owners of OP units, such OP

units will not be traded on an established securities market, and we will take the reporting position for U.S. federal income tax purposes that our operating partnership is not a publicly-traded partnership. There is a significant risk, however, that the right of a holder of OP units to redeem the units for our common shares could cause OP units to be considered readily tradable on the substantial equivalent of a secondary market. Under the relevant Treasury regulations, interests in a partnership will not be considered readily tradable on a secondary market or on the substantial equivalent of a secondary market if the partnership qualifies for specified "safe harbors," which are based on the specific facts and circumstances relating to the partnership. We believe that our operating partnership will qualify for at least one of these safe harbors at all times in the foreseeable future. If our operating partnership were treated as a publicly-traded partnership for federal income tax purposes, it would be taxed as a corporation unless at least 90% of its gross income consisted of "qualifying income" under Section 7704 of the Code. Qualifying income is generally real property rents and other types of passive income. We believe that our operating partnership will have sufficient qualifying income so that it would be taxed as a partnership, even if it were a publicly-traded partnership. The income requirements applicable to us to qualify as a REIT under the Code and the definition of qualifying income under the publicly-traded partnership rules are very similar. Although differences exist between these two income tests, we do not believe that these differences would cause our operating partnership not to satisfy the 90% gross income test applicable to publicly-traded partnerships.

Under the Code and the Treasury regulations, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for tax purposes so that the contributing partner is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution (a "book-tax difference"). Such allocations are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners.

To the extent that any subsidiary partnership acquires appreciated (or depreciated) properties by way of capital contributions from its partners, allocations would need to be made in a manner consistent with these requirements. Where a partner contributes cash to a partnership at a time that the partnership holds appreciated (or depreciated) property, the Treasury regulations provide for a similar allocation of these items to the other (i.e., non-contributing) partners. These rules may apply to a contribution that we make to any subsidiary partnership of the cash proceeds received in offerings of our common shares. As a result, the partners of a subsidiary partnership, including us, could be allocated greater or lesser amounts of depreciation and taxable income in respect of a partnership's properties than would be the case if all of the partnership's assets (including any contributed assets) had a tax basis equal to their fair market values at the time of any contributions to that partnership. This could cause us to recognize, over a period of time, taxable income in excess of cash flow from the partnership, which might adversely affect our ability to comply with the REIT distribution requirements discussed below and result in a greater portion of our distribution being taxable as a dividend.

Ownership of Disregarded Subsidiaries

If a REIT owns a corporate subsidiary that is a QRS, that subsidiary is generally disregarded for U.S. federal income tax purposes, and all assets, liabilities and items of income, deduction and credit of the subsidiary are treated as assets, liabilities and items of income, deduction and credit of the REIT itself, including for purposes of the gross income and asset tests applicable to REITs, as described below. A QRS is any corporation other than a TRS that is directly or indirectly wholly-owned by a REIT. Other entities that are wholly-owned by us, including single member limited liability companies that have not elected to be taxed as corporations for U.S. federal income tax purposes, are also

generally disregarded as separate entities for U.S. federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with any partnerships in which we hold an equity interest, are sometimes referred to herein as "pass-through subsidiaries."

In the event that a disregarded subsidiary ceases to be wholly-owned by us (for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours) the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation unless it is a TRS or a QRS. See "—Gross Income Tests" and "—Asset Tests."

Ownership of Taxable REIT Subsidiaries

In general, a REIT may jointly elect with a subsidiary corporation, whether or not wholly-owned, to treat such subsidiary corporation as a TRS. The separate existence of a TRS or other taxable corporation is not ignored for U.S. federal income tax purposes. Accordingly, a TRS or other taxable corporation generally would be subject to corporate income tax on its earnings, which may reduce the cash flow generated by us and our subsidiaries in the aggregate, and may reduce our ability to make distributions to our shareholders. A REIT is not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the shares issued by a taxable subsidiary to a REIT is an asset in the hands of the REIT, and the REIT generally treats the dividends paid to it from such taxable subsidiary, if any, as income. This treatment can affect the income and asset test calculations that apply to the REIT. Because a parent REIT does not include the assets and income of TRSs or other taxable subsidiary corporations in determining the parent REIT's compliance with the REIT requirements, such entities may be used by the parent REIT to undertake indirectly activities that the REIT rules might otherwise preclude the parent REIT from doing directly or through pass-through subsidiaries. If dividends are paid to us by one or more TRSs we may own, then a portion of the dividends that we distribute to shareholders who are taxed at individual rates generally will be eligible (through 2012 in the absence of legislative action) for taxation at preferential qualified dividend income tax rates rather than at ordinary income rates. See "—Annual Distribution Requirements" and "—Taxation of Shareholders—Taxation of Taxable U.S. Shareholders."

Generally, a TRS can perform impermissible tenant services without causing us to receive impermissible tenant services income under the REIT income tests. However, current restrictions imposed on TRSs are intended to ensure that such entities will be subject to appropriate levels of U.S. federal income taxation. First, a TRS may not deduct interest paid or accrued by a TRS to an affiliated REIT to the extent that such payments exceed, generally, 50% of the TRS' adjusted taxable income for that year (although the TRS may carry forward to, and deduct in, a succeeding year the disallowed interest amount if the 50% test is satisfied in that year). In addition, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not conducted on an arm's-length basis. We intend that all of our transactions with our TRSs will be conducted on an arm's-length basis.

A TRS cannot directly or indirectly operate or manage a lodging facility (or health care facility) or, generally, provide to another person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility (or health care facility) is operated. Although a TRS may not operate or manage a lodging facility, it may lease or own such a facility so long as the facility is a "qualified lodging facility" and such facility is operated on behalf of the TRS by an "eligible independent contractor." A "qualified lodging facility" is, generally, a hotel at which no authorized gambling activities are conducted, and includes the customary amenities and facilities operated as part

of, or associated with, the hotel. "Customary amenities" must be customary for other properties of a comparable size and class owned by other owners unrelated to the REIT. An "eligible independent contractor" is an independent contractor that, at the time a management agreement is entered into with a TRS to operate a "qualified lodging facility," is actively engaged in the trade or business of operating "qualified lodging facilities" for a person or persons unrelated to either the TRS or any REITs with which the TRS is affiliated. A hotel management company that otherwise would qualify as an "eligible independent contractor" with regard to a TRS of a REIT will not so qualify if the hotel management company and/or one or more actual or constructive owners of 10% or more of the hotel management company actually or constructively own more than 35% of the REIT, or one or more actual or constructive owners of more than 35% of the hotel management company own 35% or more of the REIT (determined with respect to a REIT whose shares are regularly traded on an established securities market by taking into account only the shares held by persons owning, directly or indirectly, more than 5% of the outstanding shares of the REIT and, if the shares of the eligible independent contractor is publicly-traded, 5% of the publicly-traded shares of the eligible independent contractor). We believe, and currently intend to take all steps reasonably practicable to ensure, that none of our TRSs has engaged or will engage in "operating" or "managing" its hotels and that the hotel management companies engaged to operate and manage hotels leased to or owned by the TRSs have qualified and continue to qualify as "eligible independent contractors" with regard to those TRSs.

Gross Income Tests

To qualify as a REIT, we must satisfy two gross income requirements on an annual basis. First, at least 75% of our gross income for each taxable year (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from investments relating to real property or mortgages on real property, including:

- "rents from real property";
- dividends or other distributions on, and gain from the sale of, shares in other REITs;
- gain from the sale of real property or mortgages on real property, in either case, not held for sale to customers;
- interest income derived from mortgage loans secured by real property; and
- income attributable to temporary investments of new capital in shares and debt instruments during the one-year period following our receipt of new capital that we raise through equity offerings, including this offering, or issuance of debt obligations with at least a five-year term.

Second, at least 95% of our gross income in each taxable year (excluding gross income from prohibited transactions, certain hedging transactions, as described below, and certain foreign currency transactions) must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as (1) other dividends, (2) interest, and (3) gain from the sale or disposition of shares or securities, in either case, not held for sale to customers.

For purposes of one or both of the 75% and 95% gross income tests, the following items of income are excluded from the computation of gross income: (1) gross income from prohibited transactions; (2) certain foreign currency income; and (3) income and gain from certain hedging transactions. See "—Income from Hedging Transactions."

Rents from Real Property

We expect that rents paid pursuant to our leases of our initial hotels to our TRSs, together with dividends and interest received from the TRSs, will constitute substantially all of our gross income (other than income from the sale of hotels). Rents received by us will qualify as "rents from real

property" in satisfying the gross income requirements described above only if the following conditions are met:

- First, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

- Second, the amount of rent must not be based in whole or in part on the income or profits of any person. Amounts received as rent, however, generally will not be excluded from rents from real property solely by reason of being based on fixed percentages of gross receipts or sales.

- Third, rents we receive from a "related party tenant" will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a TRS, at least 90% of the property is leased to unrelated tenants, and the rent paid by the TRS is substantially comparable to rent paid by the unrelated tenants for comparable space. To qualify as such, a TRS cannot engage in the operation or management of hotels or health care properties. Amounts attributable to certain rental increases charged to a controlled TRS can fail to qualify even if the above conditions are met. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively holds 10% or more of the tenant.

- Fourth, for rents to qualify as rents from real property for the purpose of satisfying the gross income tests, we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an "independent contractor" who is adequately compensated and from whom we derive no revenue, or through a TRS. To the extent that impermissible services are provided by an independent contractor, the cost of the services generally must be borne by the independent contractor. A REIT is permitted to provide directly to tenants services that are "usually or customarily rendered" in connection with the rental of space for occupancy only and not otherwise considered to be provided for the tenants' convenience. A REIT may provide a minimal amount of "non-customary" services to its tenants, other than through an independent contractor, but if the impermissible tenant services income exceeds 1% of the total income from a property, then all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant services income does not exceed 1% of the total income from the property, the services will not "taint" the other income from the property (that is, it will not cause the rent paid by tenants of that property to fail to qualify as rents from real property), but the impermissible tenant services income will not qualify as rents from real property. A REIT is deemed to have received income from the provision of impermissible services in an amount equal to at least 150% of the direct cost of providing the service.

In order for the rent paid pursuant to our leases to our TRSs to constitute "rents from real property," the leases must be respected as true leases for federal income tax purposes. Accordingly, the leases cannot be treated as service contracts, joint ventures or some other type of arrangement. The determination of whether the leases are true leases for federal income tax purposes depends upon an analysis of all the surrounding facts and circumstances. In making such a determination, courts have considered a variety of factors, including the following:

- the intent of the parties;

- the form of the agreement;

- the degree of control over the property that is retained by the property owner (e.g., whether the lessee has substantial control over the operation of the property or whether the lessee was required simply to use its best efforts to perform its obligations under the agreement); and

- the extent to which the property owner retains the risk of loss with respect to the property (e.g., whether the lessee bears the risk of increases in operating expenses or the risk of damage to the property) or the potential for economic gain (e.g., appreciation) with respect to the property.

In addition, Section 7701(e) of the Code provides that a contract that purports to be a service contract or a partnership agreement is treated instead as a lease of property if the contract is properly treated as such, taking into account all relevant factors. Since the determination of whether a service contract should be treated as a lease is inherently factual, the presence or absence of any single factor may not be dispositive in every case.

Our leases have been structured with the intent to qualify as true leases for federal income tax purposes. If, however, the leases were recharacterized as service contracts or partnership agreements, rather than true leases, or disregarded altogether for tax purposes, all or part of the payments that we receive from the TRSs would not be considered rent or would not otherwise satisfy the various requirements for qualification as "rents from real property." In that case, we likely would not be able to satisfy either the 75% or 95% gross income tests and, as a result, would lose our REIT status.

As indicated above, "rents from real property" must not be based in whole or in part on the income or profits of any person. Each of our company's leases provides for periodic payments of a specified base rent plus, to the extent that it exceeds the base rent, additional rent which is calculated based upon the gross sales of the hotels subject to the lease, plus certain other amounts. Payments made pursuant to these leases should qualify as "rents from real property" since they are generally based on either fixed dollar amounts or on specified percentages of gross sales fixed at the time the leases were entered into. The foregoing assumes that the leases have not been and will not be renegotiated during their term in a manner that has the effect of basing either the percentage rent or base rent on income or profits. The foregoing also assumes that the leases are not in reality used as a means of basing rent on income or profits. More generally, the rent payable under the leases will not qualify as "rents from real property" if, considering the leases and all the surrounding circumstances, the arrangement does not conform with normal business practice. Our company has not renegotiated, and does not intend to renegotiate, the percentages used to determine the percentage rent during the terms of the leases in a manner that has had or will have the effect of basing rent on income or profits. In addition, our company believes that the rental provisions and other terms of the leases conform with normal business practice and generally are not intended to be used as a means of basing rent on income or profits. Furthermore, our company intends that, with respect to properties that it acquires in the future, it will not charge rent for any property that is based in whole or in part on the income or profits of any person, except by reason of being based on a fixed percentage of gross revenues, as described above.

As noted above, under the Code, if a lease provides for the rental of both real and personal property and the portion of the rent attributable to personal property is 15% or less of the total rent due under the lease, then all rent paid pursuant to such lease qualifies as "rents from real property." If, however, a lease provides for the rental of both real and personal property, and the portion of the rent attributable to personal property exceeds 15% of the total rent due under the lease, then no portion of the rent that is attributable to personal property will qualify as "rents from real property." The amount of rent attributable to personal property is the amount which bears the same ratio to total rent for the taxable year as the average of the fair market value of the personal property at the beginning and end of the year bears to the average of the aggregate fair market value of both the real and personal property at the beginning and end of such year. Substantially all of our personal property is owned by our TRSs.

Interest Income

Interest generally will be non-qualifying income for purposes of the 75% or 95% gross income tests if it depends in whole or in part on the income or profits of any person. However, interest based on a fixed percentage or percentages of receipts or sales may still qualify under the gross income tests. We expect to receive interest payments from our TRSs, which will constitute qualifying income for purpose of the 95% gross income test but not necessarily the 75% gross income test. We do not expect that these amounts of interest will affect our ability to qualify under the 75% gross income test.

Dividend Income

We may receive distributions from TRSs or other corporations that are not REITs or QRSs. These distributions generally are treated as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions will generally constitute qualifying income for purposes of the 95% gross income test, but not for purposes of the 75% gross income test. Any dividends that we receive from a REIT will be qualifying income for purposes of both the 95% and 75% gross income tests.

Income from Hedging Transactions

From time to time we may enter into hedging transactions with respect to one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap or cap agreements, option agreements, and futures or forward contracts. Income of a REIT, including income from a pass-through subsidiary, arising from "clearly identified" hedging transactions that are entered into to manage the risk of interest rate or price changes with respect to borrowings, including gain from the disposition of such hedging transactions, to the extent the hedging transactions hedge indebtedness incurred, or to be incurred, by the REIT to acquire or carry real estate assets, will not be treated as gross income for purposes of the either the 75% or the 95% gross income tests. Income of a REIT arising from hedging transactions that are entered into to manage the risk of currency fluctuations will not be treated as gross income for purposes of either the 95% gross income test or the 75% gross income test provided that the transaction is "clearly identified." In general, for a hedging transaction to be "clearly identified," (1) it must be identified as a hedging transaction before the end of the day on which it is acquired, originated, or entered into; and (2) the items of risks being hedged must be identified "substantially contemporaneously" with entering into the hedging transaction (generally not more than 35 days after entering into the hedging transaction). To the extent that we hedge with other types of financial instruments or in other situations, the resultant income will be treated as income that does not qualify under the 95% or 75% gross income tests unless the hedge meets certain requirements, and we elect to integrate it with a specified asset and to treat the integrated position as a synthetic debt instrument. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT, although this determination depends on an analysis of the facts and circumstances concerning each hedging transaction.

Income from Prohibited Transactions

Net income that we derive from a prohibited transaction is excluded from gross income solely for purposes of the gross income tests and subject to a 100% tax. Any foreign currency gain (as defined in Section 988(b)(2) of the Code) in connection with a prohibited transaction will be taken into account in determining the amount of income subject to the 100% tax. The term "prohibited transaction" generally includes a sale or other disposition of property (other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business by us. Whether property is held "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. We currently intend that we will hold our initial

hotels for investment with a view to long-term appreciation, engage in the business of acquiring and owning hotels and make sales of hotels consistent with our investment objectives. No assurance can be given that any hotels or other property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates.

Income from Foreclosure Property

We generally will be subject to tax at the maximum corporate rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that constitutes qualifying income for purposes of the 75% gross income test. Foreclosure property is real property and any personal property incident to such real property (1) that we acquire as the result of having bid on the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by us and secured by the property, (2) for which we acquired the related loan or lease at a time when default was not imminent or anticipated, and (3) with respect to which we made a proper election to treat the property as foreclosure property. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property. To the extent that we receive any income from foreclosure property that does not qualify for purposes of the 75% gross income test, we intend to make an election to treat the related property as foreclosure property.

Failure to Satisfy the Gross Income Tests

We intend to monitor our sources of income, including any non-qualifying income received by us, and manage our assets so as to ensure our compliance with the gross income tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may still qualify as a REIT for such year if we are entitled to relief under applicable provisions of the Code. These relief provisions will be generally available if (1) our failure to meet these tests was due to reasonable cause and not due to willful neglect and (2) following our identification of the failure to meet the 75% and/or 95% gross income tests for any taxable year, we file a schedule with the IRS setting forth a description of each item of our gross income that satisfies the gross income tests for such taxable year in accordance with Treasury regulations. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. As discussed above under "—Taxation of REITs in General," even where these relief provisions apply, the Code imposes a tax based upon the profit attributable to the amount by which we fail to satisfy the particular gross income test, which could be significant in amount.

Certain Potential Excise Taxes on TRS Payments

Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a result of services furnished by a TRS to our tenants, and redetermined deductions and excess interest represent amounts that are deducted by a TRS for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's-length negotiations. Rents that we receive will not constitute redetermined rents if they qualify for safe-harbor provisions contained in the Code. Safe-harbor provisions are provided where:

- amounts are excluded from the definition of impermissible tenant service income as a result of satisfying the 1% de minimis exception;

- the TRS renders a significant amount of similar services to unrelated parties and the charges for such services are substantially comparable;
- rents paid to the REIT by tenants who are not receiving services from the TRS are substantially comparable to the rents paid by the REIT's tenants leasing comparable space who are receiving such services from the TRS and the charge for the service is separately stated; and
- the TRS's gross income from the service is not less than 150% of the subsidiary's direct cost of furnishing the service.

While we believe that our arrangements with our TRSs reflect arm's-length terms, these determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to accurately reflect their respective incomes. It has been reported that the IRS is conducting at least one audit of another lodging REIT, focusing on intercompany hotel leases between the REIT and its TRSs which purportedly reflect market terms. It has also been reported that the IRS has proposed transfer pricing adjustments in connection with this audit.

Asset Tests

At the close of each calendar quarter, we must satisfy the following tests relating to the nature of our assets. For purposes of the asset tests, a REIT is not treated as owning the shares of a QRS or an equity interest in any entity treated as a partnership otherwise disregarded for U.S. federal income tax purposes. Instead, a REIT is treated as owning its proportionate share of the assets held by such entity.

- at least 75% of the value of our total assets must be represented by some combination of "real estate assets," cash, cash items, U.S. government securities, and, under some circumstances, shares or debt instruments purchased with new capital. For this purpose, real estate assets include interests in real property, such as land, buildings, leasehold interests in real property, shares of other corporations that qualify as REITs, and some types of mortgage-backed securities and mortgage loans. Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below;
- not more than 25% of our total assets may be represented by securities other than those described in the first bullet above;
- except for securities described in the first bullet above and securities in TRSs or QRSs, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets;
- except for securities described in the first bullet above and securities in TRSs or QRSs we may not own more than 10% of any one issuer's outstanding voting securities;
- except for securities described in the first bullet above, securities in TRSs or QRSs, and certain types of indebtedness that are not treated as securities for purposes of this test, as discussed below, we may not own more than 10% of the total value of the outstanding securities of any one issuer; and
- not more than 25% of our total assets may be represented by securities of one or more TRSs.

The 10% value test does not apply to certain "straight debt" and other excluded securities, as described in the Code, including (1) loans to individuals or estates, (2) obligations to pay rents from real property, (3) rental agreements described in Section 467 of the Code (generally, obligations related to deferred rental payments, other than with respect to transactions with related party tenants), (4) securities issued by other REITs, (5) certain securities issued by a state, the District of Columbia, a foreign government, or a political subdivision of any of the foregoing, or the Commonwealth of Puerto

Rico, and (6) any other arrangement as determined by the IRS. In addition, (1) a REIT's interest as a partner in a partnership is not considered a security for purposes of the 10% value test; (2) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by the partnership if at least 75% of the partnership's gross income is derived from sources that would qualify for the 75% REIT gross income test; and (3) any debt instrument issued by a partnership (other than straight debt or other excluded security) will not be considered a security issued by a partnership to the extent of the REIT's interest as a partner in the partnership.

For purposes of the 10% value test, "straight debt" means a written unconditional promise to pay on demand on a specified date a sum certain in money if (1) the debt is not convertible, directly or indirectly, into shares, (2) the interest rate and interest payment dates are not contingent on profits, the borrower's discretion, or similar factors other than certain contingencies relating to the timing and amount of principal and interest payments, as described in the Code, and (3) in the case of an issuer which is a corporation or a partnership, securities that otherwise would be considered straight debt will not be so considered if we, and any of our "controlled TRSs" (as defined in the Code), hold securities of the corporate or partnership issuer which (a) are not straight debt or other excluded securities (prior to the application of this rule), and (b) have an aggregate value greater than 1% of the issuer's outstanding securities (including, for the purposes of a partnership issuer, our interest as a partner in the partnership).

We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available actions within 30 days after the close of any quarter as may be required to cure any non-compliance with the asset tests. See "—Failure to Satisfy the Asset Tests." We may not obtain independent appraisals to support our conclusions concerning the values of some or all of our assets. We do not intend to seek an IRS ruling as to the classification of our properties for purposes of the REIT asset tests. Accordingly, there can be no assurance that the IRS will not contend that our assets or our interest in other securities will not cause a violation of the REIT asset requirements.

Failure to Satisfy the Asset Tests

The asset tests must be satisfied not only on the last day of the calendar quarter in which we, directly or through pass-through subsidiaries, acquire securities in the applicable issuer, but also on the last day of the calendar quarter in which we increase our ownership of securities in such issuer, including as a result of increasing our interest in pass-through subsidiaries. After initially meeting the asset tests at the close of any quarter, we will not lose our qualification as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values (including a failure caused solely by a change in the foreign currency exchange rate used to value a foreign asset). If we fail to satisfy the asset tests because we acquire assets during a quarter, we can cure this failure by disposing of sufficient non-qualifying assets or acquiring sufficient qualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within 30 days after the close of any quarter as may be required to cure any non-compliance with the asset tests. Although we plan to take steps to ensure that we satisfy such tests for any quarter with respect to which testing is to occur, there can be no assurance that such steps will always be successful. If we fail to timely cure any non-compliance with the asset tests, we would cease to qualify as a REIT, unless we satisfy certain relief provisions.

The failure to satisfy the 5% asset test, or the 10% vote or value asset tests, can be remedied even after the 30-day cure period under certain circumstances. Specifically, if we fail these asset tests at the end of any quarter and such failure is not cured within 30 days thereafter, we may dispose of sufficient assets (generally within six months after the last day of the quarter in which our identification of the

failure to satisfy these asset tests occurred) to cure such a violation that does not exceed the lesser of 1% of our assets at the end of the relevant quarter or $10,000,000. If we fail any of the other asset tests or our failure of the 5% and 10% asset tests is in excess of the de minimis amount described above, as long as such failure was due to reasonable cause and not willful neglect, we are permitted to avoid disqualification as a REIT, after the 30-day cure period, by taking steps including disposing of sufficient assets to meet the asset test (generally within six months after the last day of the quarter in which our identification of the failure to satisfy the REIT asset test occurred), paying a tax equal to the greater of $50,000 or the highest corporate income tax rate (currently 35%) of the net income generated by the non-qualifying assets during the period in which we failed to satisfy the asset test, and filing in accordance with applicable Treasury regulations a schedule with the IRS that describes the assets that caused us to fail to satisfy the asset test(s). We intend to take advantage of any and all relief provisions that are available to us to cure any violation of the asset tests applicable to REITs. In certain circumstances, utilization of such provisions could result in us being required to pay an excise or penalty tax, which could be significant in amount.

Annual Distribution Requirements

In order to qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our shareholders in an amount at least equal to:

- the sum of: (1) 90% of our "REIT taxable income," computed without regard to our net capital gain and the deduction for dividends paid, and (2) 90% of our net income, if any, (after tax) from foreclosure property; minus
- the sum of specified items of "non-cash income."

For purposes of this test, "non-cash income" means income attributable to leveled stepped rents, original issue discount included in our taxable income without the receipt of a corresponding payment, cancellation of indebtedness or a like kind exchange that is later determined to be taxable.

We generally must make dividend distributions in the taxable year to which they relate. Dividend distributions may be made in the following year in two circumstances. First, we may declare a dividend in October, November, or December of any year with a record date in one of these months if we pay the dividend on or before January 31 of the following year. Such distributions are treated as both paid by us and received by our shareholders on December 31 of the year in which they are declared. Second, distributions may be made in the following year if they are declared before we timely file our tax return for the year and if made with or before the first regular dividend payment after such declaration. These distributions are taxable to our shareholders in the year in which paid, even though the distributions relate to our prior taxable year for purposes of the 90% distribution requirement.

In order for distributions to be counted as satisfying the annual distribution requirement for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is (1) pro rata among all outstanding shares within a particular class, and (2) in accordance with the preferences among different classes of shares as set forth in our organizational documents.

To the extent that we distribute at least 90%, but less than 100%, of our "REIT taxable income," as adjusted, we will be subject to tax at ordinary corporate tax rates on the retained portion. We may elect to retain, rather than distribute, our net long-term capital gain and pay tax on such gain. In this case, we could elect for our shareholders to include their proportionate share of such undistributed long-term capital gain in income, and to receive a corresponding credit for their share of the tax that we paid. Our shareholders would then increase their adjusted basis of their shares by the difference between (1) the amounts of capital gain dividends that we designated and that they included in their taxable income, minus (2) the tax that we paid on their behalf with respect to that income.

To the extent that in the future we may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. Such losses, however, (1) will generally not affect the character, in the hands of our shareholders, of any distributions that are actually made as ordinary dividends or capital gain; and (2) cannot be passed through or used by our shareholders. See "—Taxation of Shareholders—Taxation of Taxable U.S. Shareholders—Distributions Generally."

If we fail to distribute during each calendar year at least the sum of (1) 85% of our REIT ordinary income for such year, (2) 95% of our REIT capital gain net income for such year, and (3) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (a) the amounts actually distributed, and (b) the amounts of income we retained and on which we paid corporate income tax.

In addition, if we were to recognize "built-in-gain" (as defined below) on the disposition of any assets acquired from a "C" corporation in a transaction in which our basis in the assets was determined by reference to the "C" corporation's basis (for instance, if the assets were acquired in a tax-free reorganization), we would be required to distribute at least 90% of the built-in-gain net of the tax we would pay on such gain. "Built-in-gain" is the excess of (1) the fair market value of the asset (measured at the time of acquisition) over (2) the basis of the asset (measured at the time of acquisition).

It is possible that, from time to time, we may not have sufficient cash to meet the distribution requirements due to timing differences between our actual receipt of cash, including receipt of distributions from our subsidiaries, and our inclusion of items in income for U.S. federal income tax purposes or for other reasons. If we do not have sufficient cash to meet our distribution requirements, it might be necessary for us to arrange for short-term, or possibly long-term, borrowings, or to pay dividends in the form of taxable in-kind distributions of property. Alternatively, we may declare a taxable dividend payable in cash or shares at the election of each shareholder, where the aggregate amount of cash to be distributed in such dividend may be subject to limitation.

We may be able to rectify a failure to meet the distribution requirements for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. In this case, we may be able to avoid losing REIT qualification or being taxed on amounts distributed as deficiency dividends. We will be required to pay interest based on the amount of any deduction taken for deficiency dividends.

Record-Keeping Requirements

We are required to maintain records and request on an annual basis information from specified shareholders. These requirements are designed to assist us in determining the actual ownership of our outstanding shares and maintaining our qualification as a REIT. Failure to comply could result in monetary fines.

Failure to Qualify as a REIT

If we fail to satisfy one or more requirements for REIT qualification other than the gross income or asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. Relief provisions are available for failures of the gross income tests and asset tests, as described above in "—Gross Income Tests" and "—Asset Tests."

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions described above do not apply, we would be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We cannot deduct distributions to shareholders in any

year in which we are not a REIT, nor would we be required to make distributions in such a year. In this situation, to the extent of current and accumulated earnings and profits, distributions to U.S. shareholders that are individuals, trusts and estates will generally be taxable at capital gain rates (through 2012 only, in the absence of legislation extending this rate). In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless we are entitled to relief under specific statutory provisions, we would also be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year during which we lost qualification. It is not possible to state whether, in all circumstances, we would be entitled to statutory relief.

Taxation of Shareholders

Taxation of Taxable U.S. Shareholders

This section summarizes the taxation of U.S. shareholders that are not tax-exempt organizations. For these purposes, a U.S. shareholder is a beneficial owner of our common shares that for U.S. federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or of a political subdivision thereof (including the District of Columbia);
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- any trust if (1) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) it has a valid election in place to be treated as a U.S. person.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our common shares, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our common shares should consult its own tax advisor regarding the U.S. federal income tax consequences to the partner of the acquisition, ownership and disposition of our common shares by the partnership.

Distributions Generally

So long as we qualify as a REIT, the distributions that we make to our taxable U.S. shareholders out of current or accumulated earnings and profits that we do not designate as capital gain dividends or as qualified dividend income will generally be taken into account by shareholders as ordinary income and will not be eligible for the dividends received deduction for corporations. In determining the extent to which a distribution with respect to our common shares constitutes a dividend for U.S. federal income tax purposes, our earnings and profits will be allocated first to distributions with respect to our preferred shares, if any, and then to our common shares. Dividends received from REITs are generally not eligible to be taxed at the preferential qualified dividend income rates currently available to individual U.S. shareholders who receive dividends from taxable subchapter C corporations.

Capital Gain Dividends

We may elect to designate distributions of our net capital gain as "capital gain dividends." Distributions that we designate as capital gain dividends will generally be taxed to U.S. shareholders as long-term capital gain without regard to the period during which the U.S. shareholder that receives such distribution has held its shares. Designations made by us will only be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of

shares be composed proportionately of dividends of a particular type. If we designate any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the U.S. shareholder as capital gain. Corporate U.S. shareholders may be required to treat up to 20% of some capital gain dividends as ordinary income. Recipients of capital gain dividends from us that are taxed at corporate income tax rates will be taxed at the normal corporate income tax rates on these dividends.

We may elect to retain and pay taxes on some or all of our net long term capital gain, in which case U.S. shareholders will be treated as having received, solely for U.S. federal income tax purposes, our undistributed capital gain as well as a corresponding credit or refund, as the case may be, for taxes that we paid on such undistributed capital gain. See "—Annual Distribution Requirements."

We will classify portions of any designated capital gain dividend or undistributed capital gain as either:

- a long-term capital gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 15% (through 2012), and taxable to U.S. shareholders that are corporations at a maximum rate of 35%; or

- an "unrecaptured Section 1250 gain" distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%, to the extent of previously claimed depreciation deductions.

Distributions from us in excess of our current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that they do not exceed the adjusted basis of the U.S. shareholder's shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of these shares. To the extent that such distributions exceed the adjusted basis of a U.S. shareholder's shares, the U.S. shareholder generally must include such distributions in income as long-term capital gain, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend that we declare in October, November or December of any year and that is payable to a shareholder of record on a specified date in any such month will be treated as both paid by us and received by the shareholder on December 31 of such year, provided that we actually pay the dividend before the end of January of the following calendar year.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. See "—Taxation of our Company" and "—Annual Distribution Requirements." Such losses, however, are not passed through to U.S. shareholders and do not offset income of U.S. shareholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of U.S. shareholders to the extent that we have current or accumulated earnings and profits.

Qualified Dividend Income

With respect to U.S. shareholders who are taxed at the rates applicable to individuals, we may elect to designate a portion of our distributions paid to such U.S. shareholders as "qualified dividend income." A portion of a distribution that is properly designated as qualified dividend income is taxable to non-corporate U.S. shareholders as capital gain, provided that the U.S. shareholder has held the common shares with respect to which the distribution is made for more than 60 days during the 121-day period beginning on the date that is 60 days before the date on which such common shares became ex-dividend with respect to the relevant distribution. The maximum amount of our distributions eligible to be designated as qualified dividend income for a taxable year is equal to the sum of:

- the qualified dividend income received by us during such taxable year from non-REIT corporations (including any TRS in which we may own an interest);

- the excess of any "undistributed" REIT taxable income recognized during the immediately preceding year over the U.S. federal income tax paid by us with respect to such undistributed REIT taxable income; and

- the excess of any income recognized during the immediately preceding year attributable to the sale of a built-in-gain asset that was acquired in a carry-over basis transaction from a non-REIT "C" corporation over the U.S. federal income tax paid by us with respect to such built-in gain.

Generally, dividends that we receive will be treated as qualified dividend income for purposes of the first bullet above if (1) the dividends are received from (a) a U.S. corporation (other than a REIT or a RIC), (b) any TRS we may form, or (c) a "qualifying foreign corporation," and (2) specified holding period requirements and other requirements are met. If we designate any portion of a dividend as qualified dividend income, a U.S. shareholder will receive an IRS Form 1099-DIV indicating the amount that will be taxable to the holder as qualified dividend income.

Passive Activity Losses and Investment Interest Limitations

Distributions made by us and gain arising from the sale or exchange by a U.S. shareholder of our common shares will not be treated as passive activity income. As a result, U.S. shareholders will not be able to apply any "passive losses" against income or gain relating to our common shares. Distributions made by us, to the extent they do not constitute a return of capital, generally will be treated as investment income for purposes of computing the investment interest limitation. A U.S. shareholder that elects to treat capital gain dividends, capital gain from the disposition of shares, or qualified dividend income as investment income for purposes of the investment interest limitation will be taxed at ordinary income rates on such amounts. We intend to notify U.S. shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital and capital gain.

Dispositions of Our Common Shares

In general, a U.S. shareholder will realize gain or loss upon the sale, redemption or other taxable disposition of our common shares in an amount equal to the difference between the sum of the fair market value of any property and the amount of cash received in such disposition and the U.S. shareholder's adjusted tax basis in the common shares at the time of the disposition. In general, a U.S. shareholder's adjusted basis will equal the U.S. shareholder's acquisition cost, increased by the excess for net capital gain deemed distributed to the U.S. shareholder (discussed above) less tax deemed paid on it and reduced by returns on capital.

In general, capital gain recognized by individuals and other non-corporate U.S. shareholders upon the sale or disposition of our common shares will be subject to a maximum federal income tax rate of 15% (through 2012), if our common shares is held for more than one year, and will be taxed at ordinary income rates (of up to 35% through 2012) if the shares are held for one year or less. These rates are subject to change in 2013 in the absence of intervening legislation. Gains recognized by U.S. shareholders that are corporations are subject to federal income tax at a maximum rate of 35%, whether or not such gains are classified as long-term capital gains.

Capital losses recognized by a U.S. shareholder upon the disposition of our common shares that were held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the shareholder but not ordinary income (except in the case of individuals, who may offset up to $3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of our common shares by a U.S. shareholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of distributions that we make that are required to be treated by the U.S. shareholder as long-term capital gain.

Medicare Tax on Unearned Income

Newly enacted legislation requires certain U.S. shareholders that are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of shares for taxable years beginning after December 31, 2012. U.S. shareholders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of our common shares.

New Legislation Relating to Foreign Accounts

Under newly enacted legislation, certain payments made after December 31, 2012 to "foreign financial institutions" in respect of accounts of U.S. shareholders at such financial institutions may be subject to withholding at a rate of 30%. U.S. shareholders should consult their tax advisors regarding the effect, if any, of this new legislation on their ownership and disposition of our common shares.

Information Reporting Requirements and Backup Withholding

We will report to our shareholders and to the IRS the amount of dividends we pay during each calendar year and the amount of tax we withhold, if any. Generally, dividend payments are not subject to withholding; however they may be subject to backup withholding. A shareholder may be subject to backup withholding at a rate of 28% (through 2012, but scheduled to increase to 31% on or after January 1, 2013) with respect to dividends unless the holder:

- is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or
- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A shareholder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder's U.S. federal income tax liability. In addition, we may be required to withhold a portion of capital gain dividends to any shareholders who fail to certify their non-foreign status to us. For a discussion of the backup withholding rules as applied to non-U.S. shareholders, see "—Taxation of Non-U.S. Shareholders."

Taxation of Tax-Exempt U.S. Shareholders

U.S. tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. Such entities, however, may be subject to taxation on their unrelated business taxable income, or UBTI. While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity generally do not constitute UBTI. Based on that ruling, and provided that (1) a tax-exempt shareholder has not held our common shares as "debt financed property" within the meaning of the Code (i.e., where the acquisition or holding of the property is financed through a borrowing by the U.S. tax-exempt shareholder) and (2) our common shares are not otherwise used in an unrelated trade or business, distributions that we make and income from the sale of our common shares generally should not give rise to UBTI to a U.S. tax-exempt shareholder.

Tax-exempt U.S. shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) or (c)(20) of the Code, respectively, or single parent title-holding corporations exempt under Section 501(c)(2) whose income is payable to any of the aforementioned tax-exempt organizations, are subject to different UBTI rules, which generally require

such shareholders to characterize distributions from us as UBTI unless the organization is able to properly claim a deduction for amounts set aside or placed in reserve for certain purposes so as to offset the income generated by its investment in our common shares. These shareholders should consult with their own tax advisors concerning these set aside and reserve requirements.

In certain circumstances, a pension trust (1) that is described in Section 401(a) of the Code, (2) is tax exempt under Section 501(a) of the Code, and (3) that owns more than 10% of our common shares could be required to treat a percentage of the dividends as UBTI, if we are a "pension-held REIT." We will not be a pension-held REIT unless:

- either (1) one pension trust owns more than 25% of the value of our shares, or (2) one or more pension trusts, each individually holding more than 10% of the value of our shares, collectively own more than 50% of the value of our shares; and
- we would not have qualified as a REIT but for the fact that Section 856(h)(3) of the Code provides that shares owned by such trusts shall be treated as owned by the beneficiaries of such trusts for purposes of the requirement that not more than 50% of the value of the outstanding shares of a REIT may be owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include certain entities).

Certain restrictions on the ownership and transfer of our company's common shares contained in its declaration of trust generally should prevent a person from owning more than 10% of the value of our common shares, and thus we are not likely to become a pension-held REIT.

Tax-exempt U.S. shareholders are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of owning our common shares.

Taxation of Non-U.S. Shareholders

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares applicable to our non-U.S. shareholders. For purposes of this summary, a "non-U.S. shareholder" is a beneficial owner of our common shares that is not a U.S. shareholder (as defined above under "—Taxation of Taxable U.S. Shareholders") or an entity that is treated as a partnership for U.S. federal income tax purposes. The following discussion is based on current law, and is for general information only. It addresses only selected, and not all, aspects of U.S. federal income taxation.

Distributions Generally

As described in the discussion below, distributions paid by us with respect to our common shares will be treated for U.S. federal income tax purposes as:

- ordinary income dividends,
- return of capital distributions; or
- long-term capital gain.

This discussion assumes that our common shares will continue to be considered regularly traded on an established securities market for purposes of the Foreign Investment in Real Property Tax Act of 1980, or FIRPTA, provisions described below. If our common shares are no longer regularly traded on an established securities market, the tax considerations described below would materially differ.

Ordinary Income Dividends

A distribution paid by us to a non-U.S. shareholder will be treated as an ordinary income dividend if the distribution is payable out of our earnings and profits and:

- not attributable to our net capital gain, or
- the distribution is attributable to our net capital gain from the sale of "U.S. real property interests," or USRPIs, and the non-U.S. shareholder owns 5% or less of the value of our common shares at all times during the one year period ending on the date of the distribution.

In general, non-U.S. shareholders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our common shares. In cases where the dividend income from a non-U.S. shareholder's investment in our common shares is, or is treated as, effectively connected with the non-U.S. shareholder's conduct of a U.S. trade or business, the non-U.S. shareholder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as U.S. shareholders are taxed with respect to such dividends. Such income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. shareholder. The income may also be subject to the 30% branch profits tax in the case of a non-U.S. shareholder that is a corporation.

Generally, we will withhold and remit to the IRS 30% of dividend distributions (including distributions that may later be determined to have been made in excess of current and accumulated earnings and profits) that could not be treated as FIRPTA gain distributions with respect to the non-U.S. shareholder (and that are not deemed to be capital gain dividends for purposes of FIRPTA withholding rules described below) unless:

- a lower treaty rate applies and the non-U.S. shareholder files an IRS Form W-8BEN evidencing eligibility for that reduced treat rate with us;
- the non-U.S. shareholder files an IRS Form W-8ECI with us claiming that the distribution is income effectively connected with the non-U.S. shareholder's trade or business; or
- the non-U.S. shareholder is a foreign sovereign or controlled entity of a foreign sovereign and also provides an IRS Form W-8EXP claiming an exemption from withholding under section 892 of the Code.

Tax treaties may reduce the withholding obligations on our distributions. Under most tax treaties, however, taxation rates below 30% that are applicable to ordinary income dividends from U.S. corporations may not apply to ordinary income dividends from a REIT or may apply only if the REIT meets certain additional conditions. If the amount of tax withheld with respect to a distribution to a non-U.S. shareholder exceeds the non-U.S. shareholder's U.S. federal income tax liability with respect to the distribution, the non-U.S. shareholder may file for a refund of the excess from the IRS.

Return of Capital Distributions

Unless (A) our common shares constitute a USRPI, as described in "—Dispositions of Our Common Shares" above, or (B) either (1) the non-U.S. shareholder's investment in our common shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder (in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain) or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the U.S. for 183 days or more during the taxable year and has a "tax home" in the U.S. (in which case the non-U.S. shareholder will be subject to a 30% tax on the individual's net capital gain for the year), distributions that we make which are not dividends out of our earnings and profits and are not FIRPTA gain distributions will not be subject to U.S. federal income tax. If we cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends.

The non-U.S. shareholder may seek a refund from the IRS of any amounts withheld if it subsequently is determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits. If our common shares constitute a USRPI, as described below, distributions that we make in excess of the sum of (1) the non-U.S. shareholder's proportionate share of our earnings and profits, and (2) the non-U.S. shareholder's basis in its shares, will be taxed under FIRPTA at the rate of tax, including any applicable capital gain rates, that would apply to a U.S. shareholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a refundable withholding tax at a rate of 10% of the amount by which the distribution exceeds the shareholder's share of our earnings and profits.

FIRPTA Distributions

From time to time, some of our distributions may be of amounts attributable to gain from the sale or exchange of U.S. real property interests. Such distributions to a non-U.S. shareholder will generally be subject to the taxation and withholding regime applicable to ordinary income dividends only if (1) dividends are received with respect to a class of shares that is "regularly traded" on a domestic "established securities market," both as defined by applicable Treasury Regulations, and (2) the non-U.S. shareholder does not own more than 5% of that class of shares at any time during the one year period ending on the date of distribution. If both of these conditions are satisfied, qualifying non-U.S. shareholders will not be subject to FIRPTA withholding or reporting with respect to such dividends, or be required to pay branch profits tax. Instead, these dividends will be subject to U.S. federal income tax and withholding as ordinary dividends, currently at a 30% tax rate unless reduced by applicable treaty. Although there can be no assurance in this regard, we believe that our common shares will be "regularly traded" on a domestic "established securities market" within the meaning of applicable Treasury Regulations following the completion of this offering; however, we can provide no assurance that our common shares will be or will continue to be "regularly traded" on a domestic "established securities market" in future taxable years.

Except as discussed above, for any year in which we qualify as a REIT, distributions that are attributable to gain from the sale or exchange of a U.S. real property interest are taxed to a non-U.S. shareholder as if these distributions were gains effectively connected with a trade or business in the U.S. conducted by the non-U.S. shareholder. A non-U.S. shareholder that does not qualify for the special rule discussed above will be taxed on these amounts at the normal rates applicable to a U.S. shareholder and will be required to file a U.S. federal income tax return reporting these amounts. If such a non-U.S. shareholder is a corporation, it may also owe the 30% branch profits tax under Section 884 of the Code in respect of these amounts. We or other applicable withholding agents will be required to withhold from distributions to such non-U.S. shareholders, and to remit to the IRS 35% of the amount treated as gain from the sale or exchange of U.S. real property interests. The amount of any tax so withheld is creditable against the non-U.S. shareholder's U.S. federal income tax liability, and the non-U.S. shareholder may file for a refund from the IRS of any amount of withheld tax in excess of that tax liability.

Backup Withholding and Information Reporting

The sale of our common shares by a non-U.S. shareholder through a non-U.S. office of a broker generally will not be subject to information reporting or backup withholding. The sale generally is subject to the same information reporting applicable to sales through a U.S. office of a U.S. or foreign broker if the sale of common shares is effected at a foreign office of a broker that is:

- a U.S. person;
- a controlled foreign corporation for U.S. tax purposes;

- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a U.S. trade or business for a specified three-year period; or

- a foreign partnership, if at any time during its tax year: (1) one or more of its partners are "U.S. persons," as defined in U.S. Treasury Regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership; or (2) such foreign partnership is engaged in the conduct of a U.S. trade or business.

Backup withholding generally does not apply if the broker does not have actual knowledge or reason to know that you are a United States person and the applicable documentation requirements are satisfied. Generally, a non-U.S. shareholder satisfies the information reporting requirements by providing IRS form W-8BEN or an acceptable substitute. Backup withholding is not an additional tax. Any amounts that we withhold under the backup withholding rules will be refunded or credited against the non-U.S. shareholder's federal income tax liability if certain required information is furnished to the IRS. The application of information reporting and backup withholding varies depending on the shareholder's particular circumstances, and therefore a non-U.S. shareholder is advised to consult its tax advisor regarding the applicable information reporting and backup withholding.

Dispositions of our Common Shares

Unless our common shares constitute a USRPI, a sale of our common shares by a non-U.S. shareholder generally will not be subject to U.S. federal income taxation under FIRPTA.

Generally, with respect to any particular shareholder, our common shares will constitute a USRPI only if each of the following three statements is true.

(1) Fifty percent or more of our assets throughout a prescribed testing period consists of interests in real property located within the United States, excluding for this purpose, interests in real property solely in a capacity as creditor. We believe that 50% or more of our assets will consist of interests in U.S. real property.

(2) We are not a "domestically-controlled qualified investment entity." A domestically-controlled qualified investment entity includes a REIT less than 50% of the value of which is held directly or indirectly by non-U.S. shareholders at all times during a specified testing period. Although we expect that we likely will be domestically-controlled, we cannot make any assurance that we are or will remain a domestically-controlled qualified investment entity.

(3) Either (a) our common shares are not "regularly traded," as defined by applicable Treasury regulations, on an established securities market; or (b) our common shares are "regularly traded" on an established securities market but the selling non-U.S. shareholder has held over 5% of our outstanding common shares any time during the five-year period ending on the date of the sale. We expect that our common shares will be regularly traded on an established securities market following the public offering of our shares.

Specific wash sale rules applicable to sales of shares in a domestically-controlled REIT could result in gain recognition, taxable under FIRPTA, upon the sale of our common shares even if we are a domestically-controlled qualified investment entity. These rules would apply if a non-U.S. shareholder (1) disposes of our common shares within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been taxable to such non-U.S. shareholder as gain from the sale or exchange of a USRPI, and (2) acquires, or enters into a contract or option to acquire, other common shares during the 61-day period that begins 30 days prior to such ex-dividend date.

If gain on the sale of our common shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be required to file a U.S. federal income tax return and would be subject to the

same treatment as a U.S. shareholder with respect to such gain, subject to the applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals, and the purchaser of the shares could be required to withhold 10% of the purchase price and remit such amount to the IRS.

Gain from the sale of our common shares that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. shareholder as follows: (1) if the non-U.S. shareholder's investment in our common shares is effectively connected with a U.S. trade or business conducted by such non-U.S. shareholder, the non-U.S. shareholder will be subject to the same treatment as a U.S. shareholder with respect to such gain, or (2) if the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

New Legislation Relating to Foreign Accounts

Newly enacted legislation may impose withholding taxes on certain types of payments made to "foreign financial institutions" and certain other non-U.S. entities. Under this legislation, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of dividends and sales proceeds to U.S. shareholders that own the shares through foreign accounts or foreign intermediaries and certain non-U.S. shareholders. The legislation imposes a 30% withholding tax on dividends on, and gross proceeds from the sale or other disposition of, our shares paid to a foreign financial institution or to a foreign nonfinancial entity, unless (1) the foreign financial institution undertakes certain diligence and reporting obligations or (2) the foreign non-financial entity either certifies it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. In addition, if the payee is a foreign financial institution, it generally must enter into an agreement with the U.S. Treasury that requires, among other things, that it undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to certain other account holders. The legislation applies to payments made after December 31, 2012. Prospective investors should consult their tax advisors regarding this legislation.

Other Tax Considerations

Sunset of Reduced Tax Rate Provisions

In the absence of intervening legislation, several of the tax considerations described herein are subject to a sunset provision. The sunset provisions generally provide that for taxable years beginning after December 31, 2012, certain provisions that are currently in the Code will revert back to a prior version of those provisions. These provisions include those related to the reduced maximum income tax rate for capital gain of 15% (rather than 20%) for taxpayers taxed at individual rates, qualified dividend income, including the application of the 15% capital gain rate to qualified dividend income, highest ordinary income tax rates of 33% and 35% (rather than 36% and 39.6%, respectively), and certain other tax rate provisions described herein. The impact of this reversion is not discussed herein. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of sunset provisions on an investment in our common shares.

Legislative or Other Actions Affecting REITs

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department,

which may result in statutory changes as well as revisions to regulations and interpretations. Changes to the federal tax laws and interpretations thereof could adversely affect an investment in our common shares.

State, Local and Foreign Taxes

We, our subsidiaries, and/or shareholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which we or they transact business, own property or reside. We may own properties located in numerous U.S. jurisdictions, and may be required to file tax returns in some or all of those jurisdictions. Our state and local tax treatment and the state, local and foreign tax treatment of our shareholders may not conform to the U.S. federal income tax treatment discussed above. Prospective shareholders should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in our shares.

Tax Shelter Reporting

If a holder of our common shares recognizes a loss as a result of a transaction with respect to our common shares of at least (1) $2 million or more in a single taxable year or $4 million or more in a combination of taxable years, for a shareholder that is an individual, S corporation, trust, or a partnership with at least one non-corporate partner, or (2) $10 million or more in a single taxable year or $20 million or more in a combination of taxable years, for a shareholder that is either a corporation or a partnership with only corporate partners, such shareholder may be required to file a disclosure statement with the IRS on Form 8886. Direct holders of portfolio securities are in many cases exempt from this reporting requirement, but holders of REIT securities currently are not excepted. The fact that a loss is reportable under these Treasury regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. The Code imposes significant penalties for failure to comply with these requirements. Shareholders should consult their tax advisers concerning any possible disclosure obligation with respect to the receipt or disposition of our common shares, or transactions that we might undertake directly or indirectly. Moreover, shareholders should be aware that we and other participants in the transactions in which we are involved (including their advisors) might be subject to disclosure or other requirements pursuant to these regulations.

UNDERWRITING (CONFLICTS OF INTEREST)

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Wells Fargo Securities, LLC are acting as joint book-running book managers and representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a purchase agreement among us, our operating partnership and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the number of common shares set forth opposite its name below.

Underwriter	Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Barclays Capital Inc.	
Wells Fargo Securities, LLC	
Total	

Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price set forth on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After the initial offering, the public offering price, concession or any other term of this offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds, before expenses, to us. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$	$	$
Underwriting discount	$	$	$
Proceeds, before expenses, to us	$	$	$

The expenses of this offering, not including the underwriting discount, are estimated at $ and are payable by us. The underwriters have agreed to reimburse us for certain specified expenses incurred in connection with strategic analysis that preceded this offering.

Overallotment Option

We have granted an option to the underwriters, exercisable for 30 days after the date of this prospectus, to purchase up to additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option solely to cover overallotments, if any. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Directed Share Program

At our request, the underwriters have reserved for sale, at the initial public offering price, up to percent (%) of the common shares offered by this prospectus for sale to some of our trustees, officers, employees, business associates and related persons. If these persons purchase reserved shares, it will reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

No Sales of Similar Securities

We, our executive officers, trustee and trustee nominees and certain of the existing investors in Fund II and Fund III have agreed not to sell or transfer any common shares or securities convertible into, exchangeable or exercisable for (including OP units) or repayable with, common shares, subject to certain exceptions, without first obtaining the written consent of the representatives, for 180 days (with respect to us, certain of our executive officers, our trustee nominees and substantially all of the existing investors in Fund II and Fund III) and one year (with respect to Messrs. Johnson, Baltimore and Bierkan) after the date of this prospectus.

Specifically, we and our executive officers, trustee and trustee nominees and certain of the existing investors in Fund II and Fund III who were issued common shares in our formation transactions have agreed during the 180-day or one-year lock-up period, as applicable, with certain limited exceptions, not to directly or indirectly:

- offer, pledge, sell or contract to sell any common shares;
- sell any option or contract to purchase any common shares;
- purchase any option or contract to sell any common shares,
- grant any option, right or warrant for the sale of any common shares;
- lend or otherwise dispose of or transfer any common shares;
- request or demand that we file a registration statement related to the common shares; or
- enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common shares whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common shares and to securities convertible into or exchangeable or exercisable for (including OP units) or repayable with, common shares. This also apply to common shares and such securities owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. In the event that

either: (x) during the last 17 days of the lock-up period referred to above, we issue an earnings release or material news or a material event relating to us occurs; or (y) prior to the expiration of the lock-up period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the lock-up period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

New York Stock Exchange Listing

We have applied to have our common shares listed on the NYSE under the symbol "RLJ." In order to meet the requirements for listing on that exchange, the underwriters will undertake to sell a minimum number of shares to a minimum number of beneficial owners as required by that exchange.

Determination of Offering Price

Before this offering, there has been no trading market for our common shares. The initial public offering price will be determined through negotiations between us and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price will be:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our company and the U.S. lodging industry;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active, liquid trading market for our common shares may not develop or be sustained. It is also possible that after this offering our common shares will not trade at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of our common shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common shares. However, the representatives may engage in transactions that stabilize the price of our common shares, such as bids or purchases to peg, fix or maintain that price.

In connection with this offering, the underwriters may purchase and sell our common shares in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in this offering. "Covered" short sales are sales made in an amount not greater than the underwriters' overallotment option described above. The underwriters may close out any covered short position by either exercising their overallotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the

price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. "Naked" short sales are sales in excess of the overallotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common shares in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of various bids for or purchases of common shares made by the underwriters in the open market prior to completion of this offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common shares or preventing or retarding a decline in the market price of our common shares. As a result, the market price of our common shares may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the market price of our common shares. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Offer, Sale and Distribution of Shares

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail. In addition, the underwriters and securities dealers may facilitate Internet distribution for this offering to certain of their Internet subscription customers. The underwriters and securities dealers may allocate a limited number of shares for sale to their online brokerage customers. An electronic prospectus is available on the Internet web site maintained certain of the underwriters and securities dealers. Other than the prospectus in electronic format, the information on the web sites of the underwriters and securities dealers is not part of this prospectus.

Conflicts of Interest

An affiliate of Wells Fargo Securities, LLC, an underwriter in this offering, is a lender under seven outstanding loans, two of which, totaling approximately $210.4 million in the aggregate, will be repaid with a portion of the net proceeds of this offering. As such, this affiliate will receive a portion of the net proceeds of this offering that are used to repay such indebtedness. Further, an affiliate of Wells Fargo Securities, LLC is a minority investor in each of Fund II and Fund III, and it will receive an aggregate of common shares in connection with our formation transactions.

Other Relationships

Certain of the underwriters and their affiliates have engaged in commercial dealings with us, including serving as lenders to us, and may in the future engage in investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

Concurrently with the closing of this offering and our formation transactions, we anticipate entering into a three-year, $300 million unsecured revolving credit facility with affiliates of certain of the underwriters to fund future acquisitions, as well as for hotel redevelopments, capital expenditures and general corporate purposes. In their capacity as lenders, these affiliates of the underwriters will receive certain financing fees in connection with the credit facility in addition to the underwriting discount payable to the underwriters in connection with this offering.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice to Prospective Investors in the EEA

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), including each Relevant Member State that has implemented the 2010 PD Amending Directive with regard to persons to whom an offer of securities is addressed and the denomination per unit of the offer of securities (each, an "Early Implementing Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), no offer of common shares will be made to the public in that Relevant Member State (other than offers (the "Permitted Public Offers") where a prospectus will be published in relation to the common shares that has been approved by the competent authority in a Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive), except that with effect from and including that Relevant Implementation Date, offers of common shares may be made to the public in that Relevant Member State at any time:

A. to "qualified investors" as defined in the Prospectus Directive, including:

(a) (in the case of Relevant Member States other than Early Implementing Member States), legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities, or any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43.0 million and (iii) an annual turnover of more than €50.0 million as shown in its last annual or consolidated accounts; or

(b) (in the case of Early Implementing Member States), persons or entities that are described in points (1) to (4) of Section I of Annex II to Directive 2004/39/EC, and those who are treated on request as professional clients in accordance with Annex II to Directive 2004/39/EC, or recognized as eligible counterparties in accordance with Article 24 of Directive 2004/39/EC unless they have requested that they be treated as non-professional clients; or

B. to fewer than 100 (or, in the case of Early Implementing Member States, 150) natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive), as permitted in the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of common shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State (other than a Relevant Member State where there is a Permitted Public Offer) who initially acquires any common shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a "qualified investor," and (B) in the case of any common shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (x) the common shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, or in circumstances in which the prior consent of the Subscribers has been given to the offer or resale, or (y) where common shares have been acquired by it on behalf of persons in any Relevant Member State other than "qualified investors" as defined in the Prospectus Directive, the offer of those common shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any common shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any common shares to be offered so as to enable an investor to decide to purchase any common shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (including the 2010 PD Amending Directive, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Switzerland

We have not and will not register with the Swiss Financial Market Supervisory Authority ("FINMA") as a foreign collective investment scheme pursuant to Article 119 of the Federal Act on Collective Investment Scheme of 23 June 2006, as amended ("CISA"), and accordingly the shares being offered pursuant to this prospectus have not and will not be approved, and may not be licenseable, with FINMA. Therefore, the shares have not been authorized for distribution by FINMA as a foreign collective investment scheme pursuant to Article 119 CISA and the shares offered hereby may not be offered to the public (as this term is defined in Article 3 CISA) in or from Switzerland. The shares may solely be offered to "qualified investors," as this term is defined in Article 10 CISA, and in the circumstances set out in Article 3 of the Ordinance on Collective Investment Scheme of 22 November 2006, as amended ("CISO"), such that there is no public offer. Investors, however, do not benefit from protection under CISA or CISO or supervision by FINMA. This prospectus and any other materials relating to the shares are strictly personal and confidential to each offeree and do not constitute an offer to any other person. This prospectus may only be used by those qualified investors to whom it has been handed out in connection with the offer described herein and may neither directly or indirectly be distributed or made available to any person or entity other than its recipients. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland or from Switzerland. This prospectus does not constitute an issue prospectus as that term is understood pursuant to Article 652a and/or 1156 of the Swiss Federal Code of Obligations. We have not applied for a listing of the shares on the SIX Swiss Exchange or any other regulated securities market in Switzerland, and consequently, the information presented in this prospectus does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with exempt offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for this prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

Notice to Prospective Investors in Korea

This prospectus should not be construed in any way as our (or any of our affiliates or agents) soliciting investment or offering to sell our shares in the Republic of Korea ("Korea"). We are not making any representation with respect to the eligibility of any recipients of this prospectus to acquire the shares under the laws of Korea, including, without limitation, the Financial Investment Services and Capital Markets Act (the "FSCMA"), the Foreign Exchange Transaction Act (the "FETA"), and any regulations thereunder. The shares have not been registered with the Financial Services Commission of Korea in any way pursuant to the FSCMA, and the shares may not be offered, sold or delivered, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea. Furthermore, the shares may not be resold to any Korean resident unless such Korean resident as the purchaser of the resold shares complies with all applicable regulatory requirements (including, without limitation, reporting or approval requirements under the FETA and regulations thereunder) relating to the purchase of the resold shares.

EXPERTS

The combined consolidated financial statements and financial statement schedule of The RLJ Predecessor as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010, and the consolidated balance sheet of RLJ Lodging Trust as of February 1, 2011, appearing in this prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters relating to this offering, including the validity of the common shares offered hereby and certain tax matters, will be passed upon for us by Hogan Lovells US LLP. Sidley Austin LLP will act as counsel to the underwriters.

WHERE YOU CAN FIND MORE INFORMATION

We maintain a website at www. .com. The information contained on, or otherwise accessible through, our website does not constitute a part of this prospectus. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

We have filed with the SEC a registration statement on Form S-11, including exhibits and schedules filed with this registration statement, under the Securities Act, with respect to our common shares to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and exhibits and schedules to the registration statement. For further information with respect to our company and our common shares to be sold in this offering, reference is made to the registration statement, including the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to in this prospectus are not necessarily complete and, where that contract or other document is an exhibit to the registration statement, each statement is qualified in all respects by reference to the exhibit to which the reference relates. Copies of this registration statement, including the exhibits and schedules to this registration statement, may be examined without charge at the public reference room of the SEC, 100 F Street, N.E., Room 1580, Washington, DC 20549. Information about the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. Copies of all or a portion of the registration statement can be obtained from the public reference room of the SEC upon payment of prescribed fees. Our SEC filings, including our registration statement, are also available to you on the SEC's website at *www.sec.gov*.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act and will file periodic reports and proxy statements and will make available to our shareholders reports containing financial information.

INDEX TO FINANCIAL STATEMENTS

RLJ Lodging Trust:

RLJ LODGING TRUST UNAUDITED PRO FORMA COMBINED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma combined consolidated financial statements for the year ended December 31, 2010 have been derived from our predecessor's historical combined consolidated financial statements audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, whose report with respect to such financial statements is included elsewhere in this prospectus.

The unaudited pro forma combined consolidated balance sheet as of December 31, 2010 is presented to reflect adjustments to the predecessor's historical combined consolidated balance sheet as of December 31, 2010 as if this offering and the related formation transactions were completed on December 31, 2010. The unaudited pro forma combined consolidated statement of operations for the year ended December 31, 2010 is presented as if this offering and the related formation transactions were completed on January 1, 2010.

As of the date of this prospectus, the predecessor acquired twenty-four hotels during 2010 and 2011. The unaudited pro forma combined consolidated balance sheet as of December 31, 2010 is presented to reflect adjustments to the predecessor's historical combined consolidated balance sheet to illustrate the estimated effect of hotel acquisitions completed subsequent to December 31, 2010, as if they had occurred on December 31, 2010. The unaudited pro forma combined consolidated statement of operations for the year ended December 31, 2010 is presented as if hotel acquisitions completed during the year ended December 31, 2010 and subsequent to December 31, 2010 and the probable disposition had occurred on January 1, 2010. Such acquisitions and probable disposition have been included in the unaudited pro forma combined consolidated financial statements because we believe the impact of such completed acquisitions and the probable disposition are important to the readers of this prospectus, although the impact of such acquisitions and the probable disposition is not considered significant to the financial statements on an individual property basis or in aggregate under Rule 3-05 of Regulation S-X.

The following unaudited pro forma financial statements should be read in conjunction with (i) the predecessor's historical audited combined consolidated financial statements at December 31, 2010 and 2009 and for the three year period ended December 31, 2010 and the notes thereto appearing elsewhere in this prospectus and (ii) the "Risk Factors," and "Cautionary Note Regarding Forward-Looking Statements," sections in this prospectus. We have based the unaudited pro forma adjustments on available information and assumptions that we believe are reasonable. The following unaudited pro forma combined consolidated financial statements are presented for informational purposes only and are not necessarily indicative of what our actual financial position would have been as of December 31, 2010 assuming this offering, our formation transactions and the hotel acquisitions completed subsequent to December 31, 2010 and the probable disposition had all been completed on December 31, 2010 or what actual results of operations would have been for the year ended December 31, 2010 assuming this offering, our formation transactions and the hotel acquisitions completed subsequent to January 1, 2010 and the probable disposition had all been completed on January 1, 2010, nor are they indicative of future results of operations or financial condition and should not be viewed as indicative of future results of operations or financial condition.

Unaudited Pro Forma Combined Consolidated Balance Sheet of RLJ Lodging Trust

December 31, 2010

(unaudited)

(Amounts in thousands)

	Predecessor(1)	Pro forma Acquisitions(2)	NY LaGuardia Marriott Disposition(3)	Subtotal	Pro forma Adjustments	Pro forma
Assets						
Investment in hotel properties, net	$ 2,626,690	$ 204,870	$ (33,218)	$ 2,798,342	$ —	**$ 2,798,342**
Investment in loans	12,840	—	—	12,840	—	**12,840**
Property and equipment, net	1,585	—	—	1,585	—	**1,585**
Cash and cash equivalents	267,454	(131,710)	(414)	135,330	140,622 (5)(6)	**275,952**
Restricted cash reserves	70,520	—	(4,563)	65,957	—	**65,957**
Hotel receivables, net of allowance of $406	19,556	440	(1,236)	18,760	—	**18,760**
Deferred financing costs, net	9,298	—	(9)	9,289	(1,948)(4)	**7,341**
Deferred income tax asset	799	—	—	799	—	**799**
Due from general partner	684	—	—	684	(684)(5)	**—**
Prepaid expense and other assets	36,398	(7,712)	(1,188)	27,498	—	**27,498**
Total assets	$ 3,045,824	$ 65,888	$ (40,628)	$ 3,071,084	$ 137,990	**$ 3,209,074**
Liabilities and Owners' Equity						
Mortgage loans	$ 1,747,077	$ —	$ (58,000)	$ 1,689,077	$ (350,200)(6)	**$ 1,338,877**
Interest rate swap liability	3,820	—	—	3,820	(831)(7)	**2,989**
Due to general partner	62	—	—	62	(62)(5)	**—**
Accounts payable and accrued expenses	60,911	1,414	(3,544)	58,781	—	**58,781**
Deferred income tax liability	799	—	—	799	—	**799**
Advance deposits and deferred revenue	5,927	524	(53)	6,398	—	**6,398**
Accrued interest	3,495	—	(917)	2,578	(1,446)(6)(7)	**1,132**
Preferred distributions payable	—	69	—	69	—	**69**
Total liabilities	1,822,091	2,007	(62,514)	1,761,584	(352,539)	**1,409,045**
Owners' Equity						
Partners' capital						
Fund II general partner	(13,409)	—	—	(13,409)	13,409 (8)	**—**
Fund II limited partners	433,013	—	(27,985)	405,028	(405,028)(8)	**—**
Fund III general partner	(23,328)	—	—	(23,328)	23,328 (8)	**—**
Fund III limited partners	811,918	65,400	—	877,318	(877,318)(8)	**—**
Members' capital						
Class A members	6,592	—	—	6,592	(6,592)(8)	**—**
Class B members	4,751	—	—	4,751	(4,751)(8)	**—**
Fund II Series A preferred shares, no par value, 12.5% 250 shares authorized, issued and outstanding at December 31, 2010	189	—	—	189	(189)(8)	**—**
Fund III Series A preferred shares, no par value, 12.5% 250 shares authorized, issued and outstanding at December 31, 2010	190	—	—	190	(190)(8)	**—**
Lodgian REITs preferred shares 375 shares authorized, issued and outstanding at December 31, 2010	—	450	—	450	—	**450**
Shareholders' equity						
Common shares, par value $0.01 per share	—	—	—	—	— (9)	**—**
Additional paid in capital	—	—	—	—	490,200 (9)	**490,200**
Owners/shareholders equity	—	—	—	—	1,257,331 (8)	**1,257,331**
Retained (deficit) / earnings	—	(1,969)	49,871	47,902	(444)(4)(6)(7)	**47,458**
Accummulated other comprehensive loss	(3,806)	—	—	(3,806)	773 (7)	**(3,033)**
Noncontrolling interest	7,623	—	—	7,623	—	**7,623**
Noncontrolling partners' interest	—	—	—	—	(10)	
Total owners' equity	1,223,733	63,881	21,886	1,309,500	490,529	**1,800,029**
Total liabilities and owners' equity	$ 3,045,824	$ 65,888	$ (40,628)	$ 3,071,084	$ 137,990	**$ 3,209,074**

Notes to Pro Forma Combined Consolidated Balance Sheet of RLJ Lodging Trust

December 31, 2010

(unaudited)

(Amounts in thousands, except per share amounts)

1. The RLJ Predecessor (the "predecessor") is engaged in investing primarily in premium-branded, focused-service and compact full-service hotels. The predecessor is not a legal entity, but rather a combination of the businesses conducted by RLJ Development, LLC ("RLJ Development") and the remaining two lodging-focused private equity funds that were sponsored and managed by RLJ Development: RLJ Lodging Fund II, L.P. (and its parallel fund) ("Fund II") and RLJ Real Estate Fund III, L.P. (and its parallel fund) ("Fund III"). The predecessor reflects the historical combination of the financial statements of RLJ Development, Fund II and Fund III. The predecessor column represents the predecessor's audited historical combined consolidated balance sheet as of December 31, 2010.

   Included in partners' capital at December 31, 2010 are acquisition cost expenses of $12,898 that were expensed prior to December 31, 2010 related to the purchase of 24 hotels and have been included as pro forma adjustments in the pro forma combined consolidated statement of operations.

2. Pro forma acquisitions represent the combined unaudited assets and liabilities of nine hotels acquired after December 31, 2010 (adjusted for purchase price allocations). Pursuant to the purchase and sale agreements for the nine hotels acquired, there was a proration of operating results on the date of closing between the predecessor and the respective seller and this proration is reflected in note 2b below. Based on the timing of the acquisition of the Hampton Inn Houston—Near the Galleria, the proration of operating results has not yet been determined. Other than the liabilities described in note 2c, which are based upon the amounts acquired at closing, no other liabilities were acquired. All properties were acquired with cash of $133,866 and proceeds raised from capital contributions of $65,400.

   a. Investment in hotels of $204,870 is recorded at acquisition cost and depreciated using the straight line method over the estimated useful lives of the assets (three to five years for furniture, fixtures and equipment, 40 years for building and improvements and 15 years for land improvements). The only intangible assets acquired consist of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. Intangible assets are amortized using the straight line method over the non-cancelable term of the lease. The allocation of purchase price for the hotels is as follows:

	Acquisitions Completed after December 31, 2010
Land	$ 29,131
Buildings and improvements	153,557
Furniture, Fixtures and Equipment	22,182
Allocated Purchase Price	$ 204,870

   b. Cash and cash equivalents of $2,156, net prepaid expenses of ($7,712) (after reversing acquisition deposits that were in the predecessor's historical accounts), and hotel receivables of $440 were acquired.

   c. Accounts payable and accrued expenses of $1,414 and advance deposits of $524 were assumed. In addition, three of the acquisitions were acquisitions of real estate investment trusts

("REITs"). As part of the acquisition, the predecessor assumed outstanding preferred shares with an aggregate liquidation preference of $450 and dividends and redemption premiums payable of approximately $69, assuming the redemption occurs on June 30, 2012.

d. Retained earnings are offset by ($1,969) in transaction costs incurred by the predecessor after December 31, 2010 to complete the purchases of the remaining acquisitions that closed subsequent to December 31, 2010.

e. Acquisitions by property are as follows:

	Embassy Suites Tampa	Red Roof Inn DC	Embassy Suites Ft Myers	Homewood Suites Washington	NY/ Fashion District	HIS Denver Tech Center	Garden District Hotel	Integrated Capital Portfolio (3 hotels)	HGI New Orleans Convention Center	Green Park Portfolio (2 hotels)	Hollywood Heights Hotel	Doubletree Metropolitan Hotel NYC	Embassy Suites Columbus	Renaissance Pittsburgh Hotel	Lodgian Portfolio (4 hotels)	Archon Portfolio (2 hotels)	Hampton Inn Houston—Near the Galleria	Total
Acquisition Date	**4/15/2010**	**6/1/2010**	**6/23/2010**	**7/1/2010**	**9/22/2010**	**10/14/2010**	**10/26/2010**	**11/5/2010**	**11/16/2010**	**11/18/2010**	**12/17/2010**	**12/23/2010**	**1/11/2011**	**1/12/2011**	**1/18/2011**	**1/24/2011**	**3/14/2011**	
Assets																		
Investment in hotel properties, net	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 9,570	$ 47,250	$ 99,500	$ 28,250	$ 20,300	$ 204,8
Cash and cash equivalents	—	—	—	—	—	—	—	—	—	—	—	—	(9,224)	(45,635)	(77,143)	292	—	(131,7
Restricted cash reserves	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Hotel receivables, net of allowance of $229	—	—	—	—	—	—	—	—	—	—	—	—	24	100	300	16	—	4
Deferred financing costs, net	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Prepaid expense and other assets	—	—	—	—	—	—	—	—	—	—	—	—	(188)	(1,911)	(3,649)	(1,964)	—	(7,7
Total assets	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 182	$ (196)	$ 19,008	$ 26,594	$ 20,300	$ 65,8
Liabilities and Owners' Equity																		
Borrowings under credit facility	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$
Mortgage loans	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Accounts payable and accrued expenses	—	—	—	—	—	—	—	—	—	—	—	—	178	526	682	28	—	1,4
Advance deposits and deferred revenue	—	—	—	—	—	—	—	—	—	—	—	—	55	226	216	27	—	5
Preferred distributions payable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	69	—	—	
Total liabilities	—	—	—	—	—	—	—	—	—	—	—	—	233	752	967	55	—	2,0
Owners' Equity																		
Partners' capital Fund III limited partners	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18,072	27,028	20,300	65,4
Lodgian REITs preferred shares 375 shares authorized, issued and outstanding at Decembe 31, 2010	—	—	—	—	—	—	—	—	—	—	—	—	—	—	450	—	—	4
Shareholders' equity																		
Retained deficit	—	—	—	—	—	—	—	—	—	—	—	—	(51)	(948)	(481)	(489)	—	(1,9
Noncontrolling interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total owners' equity	—	—	—	—	—	—	—	—	—	—	—	—	(51)	(948)	18,041	26,539	20,300	63,8
Total liabilities and owners' equity	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 182	$ (196)	$ 19,008	$ 26,594	$ 20,300	$ 65,8

3. The New York LaGuardia Airport Marriott, which is included in the predecessor's historical combined consolidated balance sheet as of December 31, 2010, is expected to be transferred to a third party in satisfaction of the related debt no later than September 14, 2011. The transfer is deemed probable; however, the exact timing is uncertain, and the adjustment has been included to show the impact of removing the hotel's assets and liabilities as of December 31, 2010 from the predecessor's combined consolidated balance sheet. When the asset is transferred, the difference between the asset and liability values will result in a gain, which is included in owners' equity.

4. Represents the write off of $1,948 of the predecessor's deferred financing costs in connection with the repayment of a portion of the predecessor's variable rate mortgage debt.

5. Represents the settlement of amounts due to the general partner and amounts due from the general partner.

6. Represents the amount of variable rate mortgage debt that will be repaid with substantially all of the net proceeds of this offering of $490,200, including accrued interest thereon of $1,415. Also includes a $140,000 unsecured term loan the predecessor entered into on January 14, 2011. The term loan has an original maturity of September 30, 2011, with two six month extension options and bears interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00%.

7. Represents the fair value of the interest rate swaps of $831, which will be terminated in connection with the repayment of the variable rate mortgage debt with substantially all of the net proceeds of this offering, as well as the related accrued interest thereon of $31. The interest rate swaps have been accounted for as hedge transactions, with the effective portion recorded as other comprehensive income. The ineffective portion of $58 was recorded as interest expense.

8. Represents the elimination of the existing capital accounts of the predecessor including the cancellation in exchange for cash of the preferred shares of Fund II and Fund III and the transfer of those balances to shareholder's equity in connection with our formation transactions.

9. Represents the proceeds of this offering, net of estimated transaction costs associated with this offering, including common shares at $0.01 par value.

10. Represents OP units, valued at $ per unit, which is equal to the midpoint of the price range for our common shares set forth on the cover page of this prospectus, to be issued to RLJ Development as consideration for substantially all of RLJ Development's assets and liabilities, which are being contributed to us as part of our formation transactions.

Unaudited Pro Forma Combined Consolidated Statement of Operations of RLJ Lodging Trust

For the Year Ended December 31, 2010

(unaudited)

(Amounts in thousands)

	Predecessor(1)	Pro forma Acquisitions(2)	Acquisition Adjustments	NY LaGuardia Marriott Disposition(10)	Subtotal	Pro forma Adjustments	Pro forma
Revenue							
Hotel operating revenue							
Room Revenue	$ 466,608	$ 162,636	$ —	$ (20,978)	$ 608,266	$ —	**$ 608,266**
Food and beverage revenue	64,475	22,925	—	(6,765)	80,635	—	**80,635**
Other operating department revenue	14,485	6,336	—	(1,158)	19,663	—	**19,663**
Total revenue	545,568	191,897	—	(28,901)	708,564	—	**708,564**
Expense							
Hotel operating expense							
Room	103,333	41,591	—	(6,944)	137,980	—	**137,980**
Food and beverage	44,423	18,537	—	(6,625)	56,335	—	**56,335**
Management fees	19,140	6,752	(702)(3)	(767)	24,423	—	**24,423**
Other hotel operating expenses	167,674	58,004	598(4)	(8,403)	217,873	—	**217,873**
Total hotel operating expense	334,570	124,884	(104)	(22,739)	436,611	—	**436,611**
Depreciation	100,793	—	22,376(5)	(3,853)	119,316	—	**119,316**
Property tax, ground rent and insurance	34,868	13,281	—	(2,368)	45,781	—	**45,781**
General and administrative	19,599	—	—	(60)	19,539	—(11)	**19,539**
Transaction and pursuit costs	14,345	—	(12,898)(6)	—	1,447	—	**1,447**
Total operating expense	504,175	138,165	9,374	(29,020)	622,694	—	**622,694**
Operating income	41,393	53,732	(9,374)	119	85,870	—	**85,870**
Other income	629	—	—		629	—	**629**
Interest income	3,357	4	—	(5)	3,356	—	**3,356**
Interest expense	(89,195)	—	(15,645)(7)	2,460	(103,744)	26,928(12)	**(83,301)**
			(1,364)(7)			(6,426)(13)	
						(58)(14)	
Income (loss) from continuing operations before income taxes	(43,816)	53,736	(26,383)	2,574	(13,889)	20,443	**6,554**
Income tax expense	(945)	—	(663)(8)	—	(1,608)	—	**(1,608)**
Income (loss) from continuing operations	(44,761)	53,736	(27,046)	2,574	(15,497)	20,443	**4,946**
Less: Net loss attributable to the noncontrolling interest	(213)	—	221(9)	—	8	—	**8**
Distributions to preferred shareholders	(62)	—	—	—	(62)	62(15)	**—**
Net (loss) income from continuing operations available to owners	$ (44,610)	$ 53,736	$ (27,267)	$ 2,574	$ (15,567)	$ 20,505	**$ 4,938**

Notes to the Pro Forma Combined Consolidated Statement of Operations of RLJ Lodging Trust

For the Year Ended December 31, 2010

(Amounts in thousands)

The following unaudited pro forma combined consolidated statement of operations of RLJ Lodging Trust (the "Company") for the year ended December 31, 2010 has been prepared to illustrate the estimated effect of this offering, the hotel acquisitions, the hotel disposition and the transactions described in items (1) through (15) below, assuming this offering and such transactions were completed on January 1, 2010.

1. Represents the predecessor's audited historical combined consolidated statement of operations for the year ended December 31, 2010.

2. Represents the combined unaudited historical results of operations of the 24 hotels acquired in 2010 and 2011, in each case, as if such acquisitions had occurred as of the later of January 1, 2010 or the opening of the hotel, as shown in the table below. The Hilton New York/Fashion District did not open until April 2010. The Garden District Hotel was closed for all of 2010; therefore, there are no historical results of operations for this property.

	Embassy Suites Tampa	Red Roof Inn DC	Embassy Suites Ft Myers	Homewood Suites Washington	NY/Fashion District	HIS Denver Tech Center	Garden District Hotel	Integrated Capital Portfolio (3 hotels)	HGI New Orleans Convention Center	Green Park Portfolio (2 hotels)	Hollywood Heights Hotel	Doubletree Metropolitan Hotel NYC	Embassy Suites Columbus	Renaissance Pittsburgh Hotel	Lodgian Portfolio (4 hotels)	Archon Portfolio (2 hotels)	Hampton Inn Houston — Near the Galleria	Tot
Acquisition Date	**4/15/2010**	**6/1/2010**	**6/23/2010**	**7/1/2010**	**9/22/2010**	**10/14/2010**	**10/26/2010**	**11/5/2010**	**11/16/2010**	**11/18/2010**	**12/17/2010**	**12/23/2010**	**1/11/2011**	**1/12/2011**	**1/18/2011**	**1/24/2011**	**3/14/2011**	
Revenue																		
Hotel operating revenue																		
Room revenue	$ 5,137	$ 2,530	$ 1,923	$ 5,139	$ 6,675	$ 2,459	$ —	$ 14,602	$ 7,328	$ 4,946	$ 4,732	$ 54,406	$ 5,324	$ 13,241	$ 21,643	$ 7,634	$ 4,917	$162
Food and beverage revenue	1,224	—	378	55	—	12	—	437	830	350	673	4,093	1,105	4,692	7,742	1,334	—	22
Other operating department revenue	465	140	77	148	66	42	—	235	541	161	355	1,721	84	645	1,290	251	115	6
Total revenue	6,826	2,670	2,378	5,342	6,741	2,513	—	15,274	8,699	5,457	5,760	60,220	6,513	18,578	30,675	9,219	5,032	191
Expense																		
Hotel operating expense																		
Room	779	332	591	1,004	1,509	505	—	2,979	2,076	1,054	1,116	16,134	1,700	3,097	5,598	2,132	985	41
Food and beverage	835	—	595	120	—	—	—	193	1,000	332	618	4,002	968	3,758	4,965	1,151	—	18
Management fees	153	119	100	214	167	101	—	829	348	77	144	2,409	165	557	880	338	151	6
Other hotel operating expenses	1,914	812	1,166	1,291	1,656	813	—	3,628	3,168	1,756	1,872	15,243	2,801	6,634	10,274	3,369	1,607	58
Total hotel operating expense	3,681	1,263	2,452	2,629	3,332	1,419	—	7,629	6,592	3,219	3,750	37,788	5,634	14,046	21,717	6,990	2,743	124
Depreciation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Impairment loss								—		—					—	—		
Real estate and personal property tax ground rent and insurance	364	401	187	443	421	106	—	762	458	513	412	4,809	392	901	2,281	478	353	13
General and administrative	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Transaction costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total operating expense	4,045	1,664	2,639	3,072	3,753	1,525	—	8,391	7,050	3,732	4,162	42,597	6,026	14,947	23,998	7,468	3,096	138
Operating (loss) / income	2,781	1,006	(261)	2,270	2,988	988	—	6,883	1,649	1,725	1,598	17,623	487	3,631	6,677	1,751	1,936	53
Other income	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Interest income	—	—	—	—	—	—	—	—	—	4	—	—	—	—	—	—	—	
Interest expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Income (loss) from continuing operations before income taxes	2,781	1,006	(261)	2,270	2,988	988	—	6,883	1,649	1,729	1,598	17,623	487	3,631	6,677	1,751	1,936	53
Income tax expense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Income (loss) from continuing operations	$ 2,781	$ 1,006	$ (261)	$ 2,270	$ 2,988	$ 988	$ —	$ 6,883	$ 1,649	$ 1,729	$ 1,598	$ 17,623	$ 487	$ 3,631	$ 6,677	$ 1,751	$ 1,936	$ 53

3. Represents a contractual adjustment to management fees for differences between the management fee the seller was obligated to pay and the management fee the predecessor contracted to pay.

4. Represents a contractual adjustment to franchise fees for differences between the franchise fee the seller was obligated to pay and the franchise fee the predecessor contracted to pay.

5. Reflects depreciation expense based on the Company's new cost basis in the acquired hotels. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (three to five years for furniture, fixtures and equipment, 40 years for buildings and improvements and 15 years for land improvements).

6. Reflects the adjustment for one-time hotel acquisition costs related to hotels acquired during the year ended December 31, 2010 which are not recurring.

7. Reflects interest expense of $15,645 arising from four mortgage loans collateralized by the Embassy Suites Tampa-Downtown, Homewood Suites by Hilton Washington and Doubletree Metropolitan Hotel New York City. Interest expense for the period was calculated based on the following terms of the loans:

Property	Amount of Loan	Interest Rate(1)	Maturity Date
Embassy Suites Tampa-Downtown Convention Center(2)(3)	$ 40,000	5.50%	10/6/2013
Homewood Suites by Hilton Washington(2)(3)	31,000	5.50%	10/6/2013
Doubletree Metropolitan Hotel New York City(3)	150,000	4.90%	12/23/2013
Doubletree Metropolitan Hotel New York City(3)	50,000	10.75%	12/23/2013
	$ 271,000		

(1) All four loans bear interest at variable rates. The predecessor entered into interest rate swap agreements and interest rate cap agreements in order to hedge its interest rate exposure. As interest expense is hedged by the swaps and the cap, there would be no impact to the reported interest expense, until LIBOR increases by more than 0.70%.

(2) The acquisition of these hotels was initially financed with capital contributions. Subsequent to the acquisitions, the mortgage loan transactions were completed and have, therefore, been included in the pro forma adjustments.

(3) Interest expense arising from amortization of deferred financing costs, calculated on a straight-line basis, which approximates the effective interest method over the three-year term of these loans, is $1,364.

8. Reflects estimated income tax expense as a result of the hotel acquisitions.

9. In connection with the predecessor's acquisition of the Doubletree Metropolitan Hotel New York City, the predecessor entered into a joint venture with the manager of this hotel in which the predecessor owns a 95% economic interest. The predecessor is the managing member of this joint venture and controls all material decisions related to this hotel. This adjustment reflects the 5% noncontrolling interest owned by the predecessor's joint venture partner.

10. The New York LaGuardia Airport Marriott, which is included in the predecessor's historical combined consolidated statement of operation for the year ended December 31, 2010, is expected to be transferred to a third party no later than September 14, 2011. The transfer is deemed probable; however, the exact timing is uncertain, and the adjustment has been included to show the impact of removing the hotel's results of operations from the predecessor's combined consolidated statement of operations for the year ended December 31, 2010.

11. Reflects the adjustment to include additional compensation expense that the Company expects to incur as follows:

    a. Estimated amortization of restricted share awards with an aggregate value of $ to be granted to the Company's executive officers and other employees based on a year vesting period.

    b. Cash compensation of $ and restricted share compensation with an aggregate value of $ to the Company's trustees.

    The Company expects to incur additional corporate general and administrative expenses of approximately $ to $ that are not current contractual obligations or factually supportable and have therefore not been included as an adjustment in these pro forma financial statements, which are comprised primarily of legal and accounting expense associated with operating as a public company.

12. Represents the elimination of interest expense totalling $26,928 incurred on the portion of the predecessor's variable rate mortgage debt that will be repaid with substantially all of the net proceeds of this offering.

13. Reflects interest expense of $6,426 arising from the $140,000 unsecured term loan. The term loan has an original maturity of September 30, 2011, with two six month extension options and bears interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00% (5.25% as of December 31, 2010).

14. Represents the elimination of $58 of interest expense arising from the ineffective portion of interest rate swaps terminated in connection with the repayment of a portion of the predecessor's variable rate mortgage debt with substantially all of the net proceeds of this offering.

15. Represents the elimination of distributions to preferred shareholders in connection with the formation transactions.

The Company expects to incur the following costs related to the formation transactions, which are non-recurring in nature and which have accordingly not been reflected as adjustments:

    a. $14,800 of estimated debt assumption costs to be incurred in connection with the assumption of the portion of the predecessor's debt by the Company that will be repaid with the net proceeds from this offering.

    b. Write off of the predecessor's deferred financing costs of $1,948 in connection with the repayment of a portion of the predecessor's variable rate mortgage debt with a portion of the net proceeds of this offering.

The Company's unaudited pro forma combined consolidated statement of operations for the year ended December 31, 2010 is not necessarily indicative of what the actual results of operations would have been for the year ended December 31, 2010, nor does it purport to represent the Company's future results of operations.

RLJ Lodging Trust

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders
RLJ Lodging Trust:

In our opinion, the accompanying consolidated balance sheet presents fairly, in all material respects, the financial position of RLJ Lodging Trust and its subsidiary (the "Company") at February 1, 2011 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 2, 2011

RLJ Lodging Trust

Consolidated Balance Sheet

February 1, 2011

Assets	
Cash	$ 1,000
Total assets	**$ 1,000**
Shareholders' Equity	
Common shares, $0.01 par value per share; 100,000 common shares authorized; 1,000 shares issued and outstanding	$ 10
Additional paid-in-capital	990
Total shareholders' equity	**$ 1,000**

The accompanying notes are an integral part of the consolidated balance sheet.

1. Organization

RLJ Lodging Trust (the "Company") was formed as a Maryland real estate investment trust on January 31, 2011. The Company intends to file a Registration Statement on Form S-11 with the Securities and Exchange Commission with respect to a proposed initial public offering (the "Offering") of its common shares of beneficial interest. The Company intends to contribute proceeds from the Offering to RLJ Lodging Trust, L.P. (the "Operating Partnership"), which was formed as a Delaware limited partnership on January 31, 2011, in exchange for partnership interests. The Operating Partnership will hold substantially all of the Company's assets and conduct substantially all of its business. The Company is self-advised and self-administered and was organized to invest primarily in premium-branded, focused-service and compact full-service hotels. The Company intends to elect and qualify to be taxed as a real estate investment trust ("REIT"), for U.S. federal income tax purposes, commencing with the portion of its taxable year ending December 31, 2011.

The Company has no assets other than cash and has not yet commenced operations.

Upon completion of the Offering and related formation transactions, the Company will succeed to the operations and hotel investment and ownership platform of RLJ Development, LLC ("RLJ Development"), RLJ Lodging Fund II, L.P. (and its parallel fund) ("Fund II") and RLJ Real Estate Fund III, L.P. (and its parallel fund) ("Fund III"). RLJ Development, Fund II and Fund III are entities under common control of Robert L. Johnson, the Company's Executive Chairman, and were formed for the purpose of acquiring and operating hotel properties. Upon completion of the Offering and formation transactions, all of the existing investors in RLJ Development, Fund II and Fund III will receive common shares and will be equity owners of the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated balance sheet includes all of the accounts of the Company as of February 1, 2011, prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant inter-company balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Income Taxes

The Company intends to operate and be taxed as a REIT under the Internal Revenue Code. To qualify as a REIT, the Company must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our annual REIT taxable income to its shareholders (which is computed without regard to the dividends paid deduction or net capital gain) and which does not necessarily equal net income as calculated in accordance with GAAP. As a REIT,

2. Summary of Significant Accounting Policies (Continued)

we generally will not be subject to federal income tax to the extent the Company currently distributes its REIT taxable income to its shareholders.

REITs are subject to a number of organizational and operational requirements. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which the qualification is lost unless the IRS grants the Company relief under certain statutory provisions. Such an event could materially and adversely affect the Company's net income and net cash available for distribution to shareholders. However, the Company intends to organize and operate in such a manner as to qualify for treatment as a REIT.

Organizational and Offering Costs

The Company expenses organization costs as incurred and offering costs, which include selling commissions, will be deferred and charged to shareholders' equity.

Share-Based Compensation

In connection with the Offering, the Company expects to adopt an equity incentive plan that will provide for the issuance of share-based equity instruments including potential grants of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights and other stock-based awards, including long-term incentive plan units in the operating partnership, or any combination of the foregoing. Awards granted under this plan will generally require service-based vesting over a period of years subsequent to the grant date and resulting equity-based compensation expense measured at the fair value of the award on the date of grant will be recognized as an expense in the financial statements over the vesting period. The Company will account for awards granted under applicable stock based compensation guidance contained in Financial Accounting Standards Board Accounting Standards Codification ASC 718.

3. Shareholders' Equity

Under the declaration of trust of the Company, the total number of shares initially authorized for issuance is 100,000 common shares. The board of trustees may amend the declaration of trust to increase or decrease the number of authorized shares.

At formation, the Company issued each of its two shareholders 500 common shares at $1 per share.

4. Subsequent Events

The Company has evaluated all subsequent events through the date the balance sheet was issued, and no additional matters have come to its attention.

Report of Independent Registered Public Accounting Firm

To the Owners of

RLJ Lodging Fund II, L.P.
RLJ Lodging Fund II (P.F. #1), L.P.
RLJ Real Estate Fund III, L.P.
RLJ Real Estate Fund III, (P.F. #1), L.P., and
RLJ Development, LLC

In our opinion, the accompanying combined consolidated balance sheets and the related combined consolidated statements of operations, of changes in owners' equity and of cash flows present fairly, in all material respects, the financial position of RLJ Lodging Fund II, L.P., RLJ Lodging Fund II, (P.F. #1), L.P. RLJ Real Estate Fund III, L.P., RLJ Real Estate Fund III, (P.F. #1), L.P. and RLJ Development, LLC (collectively "The RLJ Predecessor" or the "Company") as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years ended December 31, 2010, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers, LLP

McLean, VA
March 14, 2011

The RLJ Predecessor

Combined Consolidated Balance Sheets

(Amounts in thousands)

	December 31, 2010	December 31, 2009
Assets		
Investment in hotel properties, net	$ 2,626,690	$ 1,877,583
Investment in loans	12,840	12,899
Property and equipment, net	1,585	2,386
Cash and cash equivalents	267,454	151,382
Restricted cash reserves	70,520	52,885
Hotel receivables, net of allowance of $406 and $140, respectively	19,556	10,973
Deferred financing costs, net	9,298	3,830
Deferred income tax asset	799	4,509
Due from general partner	684	10,764
Prepaid expense and other assets	36,398	23,888
Assets of hotels held for sale	—	51,766
Total assets	**$ 3,045,824**	**$ 2,202,865**
Liabilities and Owners' Equity		
Borrowings under credit facility	$ —	$ 145,983
Liabilities of hotels held for sale	—	44,386
Mortgage loans	1,747,077	1,453,008
Interest rate swap liability	3,820	14,929
Due to general partner	62	39
Accounts payable and accrued expense	60,911	48,176
Deferred income tax liability	799	4,509
Advance deposits and deferred revenue	5,927	4,972
Accrued interest	3,495	1,116
Total liabilities	**1,822,091**	**1,717,118**
Owners' Equity		
Partners' capital		
Fund II general partner	(13,409)	(11,440)
Fund II limited partners	433,013	459,903
Fund III general partner	(23,328)	(17,852)
Fund III limited partners	811,918	50,163
Members' capital		
Class A members	6,592	13,643
Class B members	4,751	5,807
Fund II—Series A preferred units, no par value, 12.5%, 250 units authorized, issued and outstanding at December 31, 2010 and 2009, respectively	189	189
Fund III—Series A preferred units, no par value, 12.5%, 250 units authorized, issued and outstanding at December 31, 2010 and 2009, respectively	190	190
Accumulated other comprehensive loss	(3,806)	(14,856)
Noncontrolling interest	7,623	—
Total owners' equity	1,223,733	485,747
Total liabilities and owners' equity	**$ 3,045,824**	**$ 2,202,865**

The accompanying notes are an integral part of these combined consolidated financial statements.

The RLJ Predecessor

Combined Consolidated Statements of Operations

(Amounts in thousands)

	For the years ended December 31,		
	2010	2009	2008
Revenue			
Hotel operating revenue			
Room revenue	$ 466,608	$ 408,667	$ 463,015
Food and beverage revenue	64,475	61,327	71,766
Other operating department revenue	14,485	12,494	17,038
Total revenue	**545,568**	**482,488**	**551,819**
Expense			
Hotel operating expense			
Room	103,333	90,663	97,407
Food and beverage	44,423	41,758	48,934
Management fees	19,140	17,203	21,365
Other hotel expenses	167,674	151,849	165,092
Total hotel operating expense	334,570	301,473	332,798
Depreciation and amortization	100,793	96,154	84,390
Impairment loss	—	98,372	21,472
Property tax, ground rent and insurance	34,868	35,667	34,110
General and administrative	19,599	18,215	18,791
Transaction and pursuit costs	14,345	8,665	1,955
Organization costs	—	—	145
Total operating expense	504,175	558,546	493,661
Operating income/(loss)	41,393	(76,058)	58,158
Other income	629	955	745
Interest income	3,357	624	1,612
Interest expense	(89,195)	(92,175)	(92,892)
Loss from continuing operations before income taxes	(43,816)	(166,654)	(32,377)
Income tax (expense)/benefit	(945)	(1,801)	945
Loss from continuing operations	(44,761)	(168,455)	(31,432)
Income from discontinued operations	22,145	457	2,111
Net loss	(22,616)	(167,998)	(29,321)
Less: Net loss attributable to noncontrolling interest	(213)	—	—
Net loss attributable to the Company	(22,403)	(167,998)	(29,321)
Distributions to preferred unitholders	(62)	(62)	(61)
Net loss available to owners	**$ (22,465)**	**$ (168,060)**	**$ (29,382)**

The accompanying notes are an integral part of these combined consolidated financial statements.

The RLJ Predecessor

Combined Consolidated Statements of Changes in Owners' Equity

(Amounts in thousands)

	Partners' Capital									
	Fund II		Fund III		Members' Capital		Preferred Units			
	General Partner	Limited Partners	General Partner	Limited Partners	Class A	Class B	Fund II	Fund III	Accumulated Other Comprehensive Loss	Total Owners' Equity
Balance at December 31, 2007	**$ (8,518)**	**$ 567,073**	**$ (6,472)**	**$ (1,142)**	**$ 19,651**	**$ 5,831**	**$ 189**	**$ —**	**$ (14,393)**	**$ 562,219**
Components of comprehensive loss:										
Net income (loss)	(13)	(17,502)	(6)	(12,928)	903	225	—	—	—	(29,321)
Reclassification adjustment for gains included in net loss	—	—	—	—	—	—	—	—	(373)	(373)
Unrealized loss on interest rate derivatives	—	—	—	—	—	—	—	—	(17,294)	(17,294)
Total comprehensive loss										(46,988)
Partners' contributions	7,157	138,364	8,011	50,768	—		—	—	—	204,300
Partners' distributions	(8,251)	(70,561)	(13,711)	—	—	—	—	—	—	(92,523)
Members' distributions	—	—	—	—	(6,337)	(68)	—	—	—	(6,405)
Issuance of preferred units, net of offering costs of $60	—	—	—	—	—	—	—	190	—	190
Distributions to preferred unitholders	—	(30)	—	(31)	—	—	—	—	—	(61)
Balance at December 31, 2008	**$ (9,625)**	**$ 617,344**	**$ (12,178)**	**$ 36,667**	**$ 14,217**	**$ 5,988**	**$ 189**	**$ 190**	**$ (32,060)**	**$ 620,732**
Components of comprehensive loss:										
Net loss	(115)	(155,411)	(5)	(11,751)	(537)	(179)	—	—	—	(167,998)
Reclassification adjustment for gains included in net loss	—	—	—	—	—	—	—	—	(150)	(150)
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	—	—	17,354	17,354
Total comprehensive loss										(150,794)
Partners' contributions	6,946	8,645	8,042	25,278	—	—	—	—	—	48,911
Partners' distributions	(8,646)	(10,644)	(13,711)	—	—	—	—	—	—	(33,001)
Members' distributions	—	—	—	—	(37)	(2)	—	—	—	(39)
Distributions to preferred unitholders	—	(31)	—	(31)	—	—	—	—	—	(62)
Balance at December 31, 2009	**$ (11,440)**	**$ 459,903**	**$ (17,852)**	**$ 50,163**	**$ 13,643**	**$ 5,807**	**$ 189**	**$ 190**	**$ (14,856)**	**$ 485,747**

The accompanying notes are an integral part of these combined consolidated financial statements.

The RLJ Predecessor

Combined Consolidated Statements of Changes in Owners' Equity

(Amounts in thousands)

	Partners' Capital										
	Fund II		Fund III		Members' Capital		Preferred Units		Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Owners' Equity
	General Partner	Limited Partners	General Partner	Limited Partners	Class A	Class B	Fund II	Fund III			
Components of comprehensive loss:											
Net income (loss)	(20)	(26,859)	(8)	(16,379)	15,658	5,205	—	—	—	(213)	(22,616)
Reclassification adjustment for gains included in net loss	—	—	—	—	—	—	—	—	(58)	—	(58)
Unrealized gain on interest rate derivatives	—	—	—	—	—	—	—	—	11,108	—	11,108
Total comprehensive loss											(11,566)
Partners' contributions	6,697	8,646	8,243	778,165	—	—	—	—	—	—	801,751
Partners' distributions	(8,646)	(8,646)	(13,711)	—	—	—	—	—	—	—	(31,003)
Members' distributions	—	—	—	—	(22,709)	(6,261)	—	—	—	—	(28,970)
Noncontrolling interest recorded upon the Doubletree Metropolitan hotel acquisition	—	—	—	—	—	—	—	—	—	7,836	7,836
	—	—	—	—	—	—	—	—	—		—
Distributions to preferred unitholders	—	(31)	—	(31)	—	—	—	—	—	—	(62)
Balance at December 31, 2010	**$ (13,409)**	**$ 433,013**	**$ (23,328)**	**$ 811,918**	**$ 6,592**	**$ 4,751**	**$ 189**	**$ 190**	**$ (3,806)**	**$ 7,623**	**$ 1,223,733**

The accompanying notes are an integral part of these combined consolidated financial statements.

The RLJ Predecessor

Combined Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the years ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net loss	$ (22,616)	$ (167,998)	$ (29,321)
Adjustments to reconcile net loss to cash flow provided by operating activities:			
Gain on sale of properties	(23,710)	—	(43)
Depreciation and amortization	100,793	98,884	86,871
Amortization of deferred financing costs	3,083	3,781	3,839
Amortization of deferred management fees	1,000	1,000	1,000
Impairment loss	—	98,372	21,472
Preacquisition costs	—	—	(116)
Deferred income taxes	—	—	(1,123)
Unrealized gain on interest rate swaps	(58)	(149)	(374)
Changes in assets and liabilities:			
Hotel receivables, net	(7,431)	(890)	1,340
Prepaid expense and other assets	2,048	1,006	1,792
Accounts payable and accrued expense	8,247	(6,130)	(1,714)
Advance deposits and deferred revenue	342	350	(341)
Accrued interest	2,380	626	(6,304)
Net cash flow provided by operating activities	64,078	28,852	76,978
Cash flows from investing activities:			
Acquisition of hotel properties, net of cash acquired	(828,872)	(145,315)	(87,846)
Purchase deposit	(8,500)	—	—
Investment in loans	—	(12,917)	—
Improvements and additions to hotel properties	(15,984)	(20,028)	(35,975)
Additions to property and equipment	(80)	(584)	(2,487)
Advances from related parties	10,103	—	5,187
Repayments to related parties	—	(10,592)	—
Proceeds from principal payments on investment in loans	68	9	—
Other investing activities	—	20	154
Proceeds from sale of hotel properties	72,747	—	—
Funding of restricted cash reserves, net	(16,089)	(8,618)	(9,433)
Net cash flow used in investing activities	(786,607)	(198,025)	(130,400)
Cash flows from financing activities:			
Borrowings under credit facility	589,146	150,983	57,765
Repayments under credit facility	(735,129)	(6,000)	(99,818)
Proceeds from mortgage loans	331,000	14,777	70,584
Payment of mortgage principal	(79,706)	(10,808)	(6,300)
Payment of member distributions	(28,971)	(39)	(6,405)
Proceeds from partner contributions	801,750	48,911	204,300
Proceeds from issuance of preferred shares	—	—	250
Payment of preferred offering costs	—	—	(60)
Payment of partner distributions	(31,003)	(33,001)	(92,523)
Payment of preferred unitholder distributions	(62)	(62)	(61)
Payment of deferred financing costs	(8,424)	(387)	(2,026)
Net cash flow provided by financing activities	838,601	164,374	125,706
Net change in cash and cash equivalents	116,072	(4,799)	72,284
Cash and cash equivalents, beginning of year	151,382	156,181	83,897
Cash and cash equivalents, end of year	**$ 267,454**	**$ 151,382**	**$ 156,181**

The accompanying notes are an integral part of these combined consolidated financial statements.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements

(Amounts in thousands)

1. Organization

RLJ Lodging Fund II ("RLJ Fund II") comprises RLJ Lodging Fund II, L.P. (the "Initial Fund II") and RLJ Lodging Fund II (P.F. #1), L.P. (the "Parallel Fund II"), which were formed in the state of Delaware on February 17, 2006 and April 5, 2006, respectively. The general partner of RLJ Fund II is RLJ Capital Partners II, LLC (the "Fund II General Partner"), a Delaware limited liability company. RLJ Fund II will continue until September 15, 2014 unless sooner dissolved pursuant to the terms of the RLJ Fund II limited partnership agreements or by operation of law. The terms of the partnerships may be extended for up to two additional one-year periods by the Fund II General Partner with the consent of a majority of the limited partner Advisory Board in order to permit the orderly dissolution of the fund.

RLJ Real Estate Fund III ("RLJ Fund III") comprises RLJ Real Estate Fund III, L.P. (the "Initial Fund III") and RLJ Real Estate Fund III (P.F. #1), L.P. (the "Parallel Fund III"), which were formed in the state of Delaware on June 18, 2007 and July 19, 2007, respectively. The general partner of RLJ Fund III is RLJ Capital Partners III, LLC (the "Fund III General Partner"), a Delaware limited liability company. RLJ Fund III will continue until January 14, 2016 unless sooner dissolved pursuant to the terms of the RLJ Fund III limited partnership agreements or by operation of law. The terms of the partnerships may be extended for up to two additional one-year periods by the Fund III General Partner with the consent of a majority of the limited partner Advisory Board in order to permit the orderly dissolution of the fund.

RLJ Development, LLC ("RLJ Development" and together with RLJ Fund II and RLJ Fund III, the "RLJ Predecessor" or the "Company") was formed in December 2000. RLJ Development is owned by its senior executives. The business and purpose of RLJ Development is to own, hold, manage and sell ownership interests in limited service hotel properties and engage in other real estate development activities.

RLJ Fund II was formed to acquire, own, hold for investment and ultimately dispose of upscale, focused or limited-service hotels, compact full-service hotels and full-service hotels located in or serving dense urban or suburban markets in the United States and Canada. The Parallel Fund II was organized to operate identically to the Initial Fund II, sharing ratably in all investments. The Initial Fund II and the Parallel Fund II are separate companies that do not have ownership interest in each other; however, through their respective wholly-owned subsidiaries, they jointly own a 100% interest in RLJ Lodging II Master, LLC (the "Fund II Master Company").

RLJ Fund III was formed to acquire, own, hold for investment and ultimately dispose of upscale, focused or limited-service hotels, compact full-service and full-service hotels, and a limited number of mixed-use properties with a lodging component and other commercial and residential properties located in or serving dense urban or suburban markets in the United States and Canada. The Parallel Fund III was organized to operate identically to the Initial Fund III, sharing ratably in all investments. The Initial Fund III and the Parallel Fund III are separate companies that do not have ownership interest in each other; however, through their respective wholly-owned subsidiaries, they jointly own a 100% interest in RLJ Real Estate III Master, LLC (the "Fund III Master Company").

The Initial Fund II owns a 100% interest in RLJ Lodging II REIT, LLC (the "Fund II Initial REIT"). The Fund II Initial REIT is a real estate investment trust ("REIT") as defined in the Internal Revenue Code (the "Code"). The Parallel Fund II owns a 100% interest in RLJ Lodging II REIT

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

1. Organization (Continued)

(PF#1), LLC (the "Fund II Parallel REIT"). The Fund II Parallel REIT is a REIT as defined in the Code. The Fund II Initial REIT and the Fund II Parallel REIT are collectively referred to as the "Fund II Investment REITs."

Each investment made by RLJ Fund II is made through the Fund II Investment REITs. The Fund II Investment REITs make investments through the Master Company, which was organized in the state of Delaware on April 5, 2006. The Fund II Initial REIT and the Fund II Parallel REIT each own a percentage of the Fund II Master Company in proportion to the capital contributions made to the Fund II Initial Fund and the Fund II Parallel Fund, respectively. Together, the Fund II Investment REITs own a 100% interest in the Fund II Master Company. Substantially all of RLJ Fund II's and the Fund II Investment REITs' assets are held by, and all of their operations are conducted through, the Fund II Master Company or a wholly-owned subsidiary of the Fund II Master Company.

The Initial Fund III owns a 100% interest in RLJ Real Estate III REIT, LLC (the "Fund III Initial REIT"). The Fund III Initial REIT is a real estate investment trust ("REIT") as defined in the Internal Revenue Code (the "Code"). The Fund III Parallel Fund owns a 100% interest in RLJ Real Estate III REIT (PF#1), LLC (the "Fund III Parallel REIT"). The Fund III Parallel REIT is a REIT as defined in the Code. The Fund III Initial REIT and the Fund III Parallel REIT are collectively referred to as the "Fund III Investment REITs."

Each investment made by RLJ Fund III is made through the Fund III Investment REITs. The Fund III Investment REITs make investments through the Fund III Master Company, which was organized in the state of Delaware on July 27, 2007. The Fund III Initial REIT and the Fund III Parallel REIT each own a percentage of the Fund III Master Company in proportion to the capital contributions made to the Fund III Initial Fund and the Fund III Parallel Fund, respectively. Together, the Fund III Investment REITs own a 100% interest in the Fund III Master Company. Substantially all of RLJ Fund III's and the Fund III Investment REITs' assets are held by, and all of their operations are conducted through, the Fund III Master Company or a wholly-owned subsidiary of the Fund III Master Company.

RLJ Fund II had no operations prior to June 8, 2006, at which time the Second Amended and Restated Limited Partnership Agreement of RLJ Lodging Fund II, L.P. and the Amended and Restated Limited Partnership Agreement of RLJ Lodging Fund II, L.P. (P.F. #1) became effective. Collectively, both agreements are referred to as the "Fund II LP Agreements." From June 15, 2006 through September 15, 2006, the Initial Fund II completed six closings, admitting limited partners to the partnership, with the final closing on September 15, 2006. On January 15, 2007, the limited partnership agreements for both the Initial Fund II and the Parallel Fund II were amended and restated. Effective that date, the Initial Fund II is operating under the Third Amended and Restated Limited Partnership Agreement and the Parallel Fund II is operating under the Second Amended and Restated Limited Partnership Agreement.

RLJ Fund III had no operations prior to July 12, 2007, at which time the Amended and Restated Limited Partnership Agreement of RLJ Real Estate Fund III, L.P. became effective. On August 14, 2007, the Amended and Restated Limited Partnership Agreement of RLJ Real Estate Fund III, L.P. (P.F. #1) became effective. Collectively, both agreements are referred to as the "Fund III LP Agreements." On April 3, 2009, the Fund III LP Agreements were amended and restated and now

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

1. Organization (Continued)

operate under the Second Amended and Restated Limited Partnership Agreement. From August 28, 2007 through January 14, 2008, the Initial Fund III completed five closings, admitting limited partners to the partnership, with the final closing on January 14, 2008.

As of December 31, 2010, RLJ Fund II owned interests in 110 hotels with 14,713 rooms located in California, Colorado, Connecticut, Florida, Illinois, Indiana, Kentucky, Michigan, Nevada, New York, Tennessee, Texas, and Utah. Additionally, as of December 31, 2010, RLJ Fund II owned interests in land parcels located adjacent to certain hotels located in Illinois, Michigan and Texas. RLJ Fund II, through wholly-owned subsidiaries, owned a 100% interest in all of its assets. All of the assets are leased to the Fund II Master Company's taxable REIT subsidiary, RLJ Lodging II REIT Sub, Inc. (the "Fund II REIT Sub"), or a wholly-owned subsidiary of the Fund II REIT Sub. Each asset is leased under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a percentage rent based on hotel revenues. Lease revenue from the Fund II REIT Sub and its wholly-owned subsidiaries is eliminated in consolidation. An independent hotel operator manages each hotel.

As of December 31, 2010, RLJ Fund III owned interests in 22 hotels with 4,351 rooms located in California, Colorado, Florida, Louisiana, Maryland, New York, Texas and the District of Columbia. As of December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, also owned a 100% interest in two mortgage loans collateralized by hotels located in Georgia and Texas. Additionally, as of December 31, 2010, RLJ Fund III owned an interest in a land parcel located adjacent to a hotel in Texas. RLJ Fund III, through wholly-owned subsidiaries, owned a 100% interest in all of the assets, with the exception of the Doubletree Metropolitan Hotel New York City. RLJ Fund III, through wholly-owned subsidiaries, owns a 95% interest in a joint venture, DBT Met Hotel Venture, LP, which was formed to engage in hotel operations related to the Doubletree Metropolitan hotel. The Fund III Master Company owns a 100% interest in the general partner of the limited partnership, DBT Met Venture GP, LLC, formed on December 8, 2010.

All of RLJ Fund III's assets, with the exception of the Doubletree Metropolitan Hotel New York City, are leased to the Fund III Master Company's taxable REIT subsidiary, RLJ Real Estate III REIT Sub, Inc. (the "Fund III REIT Sub"), or a wholly-owned subsidiary of the Fund III REIT Sub. The Doubletree Metropolitan Manhattan hotel is leased to the DBT Met Venture's taxable REIT subsidiary, RLJ III—DBT Metropolitan Manhattan Lessee, LLC (the "Met REIT Sub"). Each asset is leased under a participating lease that provides for rental payments equal to the greater of (i) a base rent or (ii) a percentage rent based on hotel revenues. Lease revenue from the Fund III REIT Sub and its wholly-owned subsidiaries is eliminated in consolidation. An independent hotel operator manages each hotel.

As of December 31, 2010, RLJ Development owned no hotel properties and primarily only had assets and liabilities associated with owned furniture, fixtures and equipment, leases and its employees.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The combined consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The combined consolidated financial statements include the accounts of RLJ Fund II, RLJ Fund III and RLJ Development and their respective wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

The Initial Fund II and the Parallel Fund II are separate entities that do not have ownership interest in each other but are under the common control of the Fund II General Partner, likewise, the Initial Fund III and the Parallel Fund III are separate entities that do not have ownership interest in each other but are under the common control of the Fund III General Partner. RLJ Development, RLJ Fund II and RLJ Fund III are entities under the common control of Robert L. Johnson and were formed for the purpose of acquiring and operating hotel properties. As part of the intended transaction, the registrant will acquire certain of the assets of RLJ Development, including employees, FF&E, and leases, which will represent substantially all of RLJ Development's business. Since these three entities are under common control and RLJ Lodging Trust will succeed to their operations and businesses, the combined entities of RLJ Fund II, RLJ Fund III, and RLJ Development are presented as The RLJ Predecessor and referred to as the Company.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the amounts of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts in these financial statements have been reclassified to conform with the current year presentation with no impact to net income, owners' equity or cash flows.

Risks and Uncertainties

During the recent economic recession, the Company experienced reduced demand for its hotel rooms and services. Uncertainty over the economic recovery will continue to impact the lodging industry and the Company's financial results and growth. While the Company's financial results were impacted by the economic slowdown, it is expected that the Company's future financial results and growth will benefit while the economy continues to improve.

In addition, the Company owned 23 and 17 hotels located in the Chicago, Illinois and Austin, Texas metropolitan areas, respectively. As a result, the Company is susceptible to adverse market conditions in these areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company's revenue comprises hotel operating revenue, such as room revenue, food and beverage revenue and revenue from other hotel operating departments (such as telephone, parking and business centers). These revenues are recorded net of any sales and occupancy taxes collected from guests. All rebates or discounts are recorded as a reduction in revenue, and there are no material contingent obligations with respect to rebates and discounts offered by the hotels. All revenues are recorded on an accrual basis as earned. Appropriate allowances are made for doubtful accounts and are recorded as bad debt expense. The allowances are calculated as a percentage of aged accounts receivable, based on individual hotel management company policy. Cash received prior to guest arrival is recorded as an advance from the guest and recognized as revenue at the time of occupancy.

Incentive payments received pursuant to entry into management agreements are deferred and amortized into income over the life of the respective agreements. In 2007, RLJ Fund II received an incentive payment of $3.0 million related to purchasing a hotel and entering into a management agreement with Marriott International for management of the New York LaGuardia Airport Marriott, which will be recognized over the remaining term of the management agreement. As of December 31, 2010 and 2009, there is approximately $2.6 million and $2.7 million, respectively, remaining to be recognized.

Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methods. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The Company used the following market assumptions and/or estimation methods:

- Cash and cash equivalents, hotel receivables, accounts payable and accrued expenses—The carrying amounts reported in the combined consolidated balance sheet for these financial instruments approximate fair value because of their short maturities.

- Investment in collateralized loans—Fair value is determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or both of the following criteria, as appropriate: (1) interest rates for loans of comparable quality and maturity, and (2) the value of the underlying collateral. The fair values of the Company's investment in collateralized loans are generally classified within Level 3 of the valuation hierarchy. The fair value estimated at December 31, 2010 and 2009 was $22.1 million and $12.9 million, respectively.

- Interest rate swaps and caps—The fair value of interest rate swaps and caps is determined as discussed in Note 11 to these financial statements.

- Variable rate mortgage notes payable and borrowings under the credit facility—The carrying amounts reported in the combined consolidated balance sheets for these financial instruments

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

approximate fair value. The Company estimates the fair value of its variable rate debt by using quoted market rates for similar loans with similar terms.

- Fixed rate mortgage notes payable—The fair value estimated at December 31, 2010 and 2009 of $796.5 million and $808.4 million, respectively (excluding loans collateralized by properties held for sale), is calculated based on the net present value of payments over the term of the loans using estimated market rates for similar mortgage loans with similar terms.

Investment in Hotel Properties

Hotel acquisitions consist almost exclusively of land, land improvements, building, furniture, fixtures and equipment and inventory. The Company records the purchase price among these asset classes based on their respective fair values. When the Company acquires properties, they are acquired for use. Generally, the Company does not acquire any significant in-place leases or other intangible assets (e.g., management agreements, franchise agreements or trademarks) when hotels are acquired. The only intangible assets acquired through December 31, 2010 consist of favorable tenant lease agreements and miscellaneous operating agreements, which are short-term in nature and at market rates. In conjunction with the acquisition of a hotel, the Company typically negotiates new franchise and management agreements with the selected brand and manager.

The Company's investments in hotels are carried at cost and are depreciated using the straight-line method over estimated useful lives of 15 years for land improvements, 40 years for buildings and improvements and three to five years for furniture, fixtures and equipment. Intangible assets arising from favorable or unfavorable leases are amortized using the straight-line method over the non-cancelable term of the agreement. Maintenance and repairs are expensed and major renewals or improvements are capitalized. Upon the sale or disposition of a fixed asset, the asset and related accumulated depreciation are removed from the accounts and the related gain or loss is included in operations.

The Company considers each individual hotel to be an identifiable component of the business. In accordance with the impairment or disposal of long-lived assets guidance, the Company does not consider a hotel as "held for sale" until it is probable that the sale will be completed within one year and the other requisite criteria for such classification have been met. Once a hotel is designated as "held for sale" the operations for that hotel are included in discontinued operations. The Company does not depreciate hotel assets so long as they are classified as "held for sale." Upon designation of a hotel as being "held for sale" and quarterly thereafter, the Company reviews the realizability of the carrying value, less cost to sell, in accordance with the guidance. Any such adjustment in the carrying value of a hotel classified as "held for sale" is reflected in discontinued operations. The Company includes in discontinued operations the operating results of those hotels that are classified as "held for sale."

For hotels that are classified as held for investment, the Company assesses the carrying values of each hotel, whenever events or changes in circumstances indicate that the carrying amounts of these hotels may not be fully recoverable. Recoverability of the hotel is measured by comparison of the carrying amount of the hotel to the estimated future undiscounted cash flows, which take into account current market conditions and our intent with respect to holding or disposing of the hotel. If our

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

analysis indicates that the carrying value of the hotel is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the hotel. Fair value is determined through various valuation techniques, including internally developed discounted cash flow models, comparable market transactions and third-party appraisals, where considered necessary.

The use of projected future cash flows is based on assumptions that are consistent with a market participant's future expectations for the travel industry and economy in general and our strategic plans to manage the underlying hotels. However assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and our ultimate investment intent that occur subsequent to a current impairment analyses could impact these assumptions and result in future impairment charges of the hotels.

Investment in Loans

The Company holds investments in two collateralized mortgage loans. The loans are collateralized by the related hotels and were recorded at acquisition at their initial investment, which includes the amount paid to the seller plus any fees paid or less any fees received. The acquired loans were of a deteriorated credit quality as the loans were already in default, at the date of the Company's acquisition of the loans and therefore the amounts paid for the loans reflected the Company's determination that it was probable the Company would be unable to collect all amounts due pursuant to the loan's contractual terms.

When the loans were acquired, the Company commenced foreclosure proceedings. The Company initially acquired the loans for the reward of ownership of the underlying collateral and as a result placed the loans on non-accrual status and recognized income on a cash-basis method. The loans were brought current when the borrower paid all outstanding regular monthly payments and interest accrued. As the loans are no longer in default, the Company determined that the cash flows can reasonably be estimated and therefore the loans are no longer on non-accrual status.

The Company considers expected prepayments, and estimates the amount and timing of undiscounted expected principal, interest and other cash flows. The Company determines any excess of the loan's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted. The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid to acquire the loan is accreted into interest income over the remaining life of the loan. The Company will regularly re-estimate cash flows expected to be collected over the life of the loan. Any changes in future cash flows expected to be collected will result in a prospective adjustment to the interest yield which will be recognized over the loan's remaining life. A reserve will be established if the present value of payments expected to be received, observable market prices, or the estimated fair value of the collateral (for loans that are dependent on the collateral for repayment) of an impaired loan is lower than the carrying value of that loan. As of December 31, 2010 and 2009, no reserves for loan losses were deemed necessary.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The Company maintains cash balances in domestic banks, which, at times, may exceed the limits of amounts insured by the Federal Deposit Insurance Corporation.

Restricted Cash Reserves

All cash that is required to be maintained in a reserve escrow account by a management agreement and/or a mortgage agreement for replacement of furniture, fixtures and equipment and funding of real estate taxes and insurance is considered to be restricted cash reserves. Net cash from operations from the New York LaGuardia Airport Marriott are distributed monthly to the lender as a result of an event of default on its mortgage loan. The cash distributed to the lender is considered to be restricted cash reserves.

Deferred Financing Fees

Deferred financing fees relate to costs incurred to obtain long-term financing of hotel properties. Deferred financing fees are recorded at cost and are amortized using the straight-line method, which approximates the effective interest method, over the respective terms of the mortgage loans that are collateralized by the hotel properties and over the term of a credit facility collateralized by capital commitments of RLJ Fund II or RLJ Fund III, as applicable (see Note 7) and are included as a component of interest expense. For the years ended December 31, 2010, 2009 and 2008, approximately $3.0 million, $3.7 million and $3.8 million (excluding discontinued operations), respectively, of amortization expense was recorded as a component of interest expense. Accumulated amortization at December 31, 2010 and 2009 was approximately $13.1 million and $10.1 million (excluding discontinued operations), respectively.

Deferred Management Fees

In June 2006, in consideration for the agreement of White Lodging Services Corporation ("WLS") to enter into new management agreements on terms favorable to RLJ Fund II, a subsidiary of RLJ Fund II made a one-time payment of $20.0 million to WLS. This payment was recorded at cost, and is being amortized as a component of management fee expense, which is included in management fees, over the 20-year initial term of the management agreement. For the years ended December 31, 2010, 2009 and 2008, $1.0 million of amortization expense was recorded in each year with respect to deferred management fees. As of December 31, 2010 and 2009, accumulated amortization was approximately $4.6 million and $3.6 million, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) is comprised of unrealized gains and losses resulting from hedging activities.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately $4.2 million, $2.2 million and $1.9 million (excluding discontinued operations) for the years ended December 31, 2010, 2009 and 2008, respectively, and is included in other hotel operating expenses.

Transaction and Pursuit Costs

The Company incurs costs during the review of potential property acquisitions, including legal fees, architectural costs, environmental reviews and market studies. Prior to December 31, 2008, these costs were included in prepaid expenses and other current assets until the property was either acquired or the deal was abandoned. Costs related to properties that were acquired were reclassified to investment in hotel properties at the time of acquisition. Costs related to deals that were abandoned were expensed to transaction and pursuit costs at the time of abandonment.

On January 1, 2009, the Company adopted the new accounting guidance on business combinations, which requires transaction costs to be expensed as incurred. At December 31, 2008, the Company had approximately $700 of costs related to acquisitions that were expected to close during 2009, which were included in prepaid expenses and other current assets. Those costs were expensed as transaction and pursuit costs at December 31, 2008.

On February 26, 2009, RLJ Fund II terminated its obligation to purchase two additional properties under a purchase and sale agreement. Approximately $5.6 million was paid as a termination fee, which is included in transaction and pursuit costs.

Derivative Financial Instruments

In the normal course of business, the Company is exposed to the effects of interest rate changes. As of December 31, 2010 and 2009, approximately 24.9% and 23.1%, respectively, of the Company's borrowings were subject to variable rates. The Company limits the risks associated with interest rate changes by following the Company's established risk management policies and procedures, including the use of derivatives. The Company utilizes derivative financial instruments to manage, or hedge, interest rate risk. The Company attempts to require that hedging derivative instruments be effective in reducing the interest rate risk exposure that they are designated to hedge. This effectiveness is essential in order to qualify for hedge accounting. Instruments that meet these hedging criteria are formally designated as hedges at the inception of the derivative contract. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income each period until the instrument matures.

The Company utilizes a variety of borrowing vehicles including a credit facility and medium and long-term financings. To reduce the Company's susceptibility to interest rate variability, the Company uses interest rate instruments, typically interest rate swaps and caps, to convert a portion of variable rate debt to fixed rate debt.

Interest rate differentials that arise under interest rate swap and cap contracts are recognized in interest expense over the life of the contracts. Interest rate swap and cap agreements contain a credit

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

risk that counterparties may be unable to fulfill the terms of the agreement. The Company has minimized that risk by evaluating the creditworthiness of its counterparties, who are limited to major banks and financial institutions, and it does not anticipate nonperformance by the counterparties.

Gains and losses on swap and cap agreements determined to be effective hedges are reported in other comprehensive income (loss) and are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedged items is recognized in earnings in the current period. At December 31, 2010 and 2009, the aggregate fair value of approximately $3.8 million and $14.9 million, respectively, of the swap agreements was recorded as a liability in the accompanying combined consolidated financial statements.

Distributions

RLJ Fund II is required to make quarterly distributions to the Fund II General Partner and RLJ Fund II's limited partners in accordance with the Fund II LP Agreements. Distributable proceeds are apportioned among the Fund II General Partner and the RLJ Fund II limited partners in proportion to their respective percentage interests and then distributed to each partner (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, and (iii) thereafter 80% to limited partners and 20% to the Fund II General Partner. As of December 31, 2010, an aggregate of approximately $158.8 million (excluding advisory fees, see Note 12) had been distributed to partners.

RLJ Fund III is required to make quarterly distributions to the Fund III General Partner and RLJ Fund III's limited partners in accordance with the Fund III LP Agreements. Distributable proceeds are apportioned among the Fund III General Partner and the RLJ Fund III LP limited partners in proportion to their respective percentage interests and then distributed to each partner (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, (iii) third, 80% to partners and 20% to the Fund III General Partner, until each partner has received an internal rate of return of 11%, (iv) fourth, 60% to partners and 40% to the Fund III General Partner until the aggregate amount under (i) and (iii) distributed to the Fund III General Partner equals 20% of the aggregate amount distributed to the partners, and (v) thereafter 80% to limited partners and 20% to the Fund III General Partner. As of December 31, 2010, no distributions had been made to partners (excluding advisory fees, see Note 12).

RLJ Fund II, through wholly-owned subsidiaries, makes distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of December 31, 2010, an aggregate of approximately $131 had been distributed to preferred unitholders.

RLJ Fund III, through wholly-owned subsidiaries, makes distributions to preferred unitholders semi-annually on June 30 and December 31 each year. As of December 31, 2010, an aggregate of approximately $93 had been distributed to preferred unitholders.

Pursuant to the terms of the RLJ Development's Limited Liability Company Agreement (the "LLC Agreement"), distributions are made at the discretion of the managing member. Distributions are made to Members in the following priority; (i), first to Class A Members who are entitled to receive any unpaid preferred return until the unpaid preferred return is reduced to zero; (ii), next to

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

each Member, an amount equal to the excess of the tax rate percentage (as defined by the LLC Agreement) multiplied by the aggregate amount of net profits allocated to such members; (iii), next to Class A Members in proportion to the respective amounts of their unreturned capital (as defined by the LLC Agreement), until the unreturned capital of all Class A Members is reduced to zero; (iv), thereafter, among the Members in proportion to their respective membership percentage interests.

Allocation of Profits and Losses

Profits and losses of RLJ Fund II are allocated to the Fund II General Partner and RLJ Fund II's limited partners in accordance with the Fund II LP Agreements. Profits and losses are apportioned among the Fund II General Partner and the RLJ Fund II limited partners in proportion to their respective percentage interests (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, and (iii) thereafter 80% to limited partners and 20% to the Fund II General Partner.

Profits and losses of RLJ Fund III are allocated to the Fund III General Partner and RLJ Fund III's limited partners in accordance with the Fund III LP Agreements. Profits and losses are apportioned among the Fund III General Partner and the RLJ Fund III limited partners in proportion to their respective percentage interests (i) first, to partners until each has received a hurdle return of 9%, (ii) second, to partners until each partners' respective unreturned invested equity is reduced to zero, (iii) third, 80% to partners and 20% to the Fund III General Partner, until each partner has received an internal rate of return of 11%, (iv) fourth, 60% to partners and 40% to the Fund III General Partner until the aggregate amount under (i) and (iii) distributed to the Fund III General Partner equals 20% of the aggregate amount distributed to the partners, and (v) thereafter 80% to limited partners and 20% to the Fund III General Partner.

Profits of RLJ Development are allocated in accordance with the LLC Agreement: (i) first, to Members who received allocations of losses for earlier periods in proportion to the cumulative amount of those losses; (ii) next, to Class A Members in proportion to their respective percentage interests, until those Members have received cumulative allocation of profits for the current year and all prior years not offset by losses allocated to them equal to the cumulative amount of their annual preferred return; and (iii) thereafter, to the Members in proportion to their respective membership percentage interests. Losses of RLJ Development are allocated to Members in the following order or priority: (i) first, to Members who received allocations of profits in earlier fiscal years in proportion to the cumulative amount of profits previously allocated to them; (ii) next, to Members who have a positive capital account in proportion to the respective amounts of their positive capital accounts until the accounts are reduced to zero; and (iii) thereafter, to the Members in proportion to their respective percentage interests.

Noncontrolling Interests

As of December 31, 2010, we consolidate DBT Met Hotel Venture, LP, a majority-owned partnership that has a third-party, noncontrolling 5.0% ownership interest. The third-party partnership interest is included in noncontrolling interest on the balance sheet.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Fund II and Fund III Investment REITs have elected to be taxed as real estate investment trusts under Sections 856 through 860 of the Internal Revenue Code commencing with their taxable years ended December 31, 2006 and 2007, respectively. To qualify as a REIT, each Investment REIT must meet a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their adjusted taxable income to their owners. The Investment REITs' current intention is to adhere to these requirements and maintain the qualification for taxation as REITs. As REITs, the Investment REITs generally are not subject to federal corporate income tax on that portion of net income that is currently distributed to owners. If the Investment REITs fail to qualify for taxation as a REIT in any taxable year, they will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Investment REITs qualify for taxation as REITs, the Investment REITs may be subject to certain state and local taxes on their income and property, and to federal income and excise taxes on their undistributed taxable income.

Taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes. As wholly-owned taxable REIT subsidiaries of the Master Companies, the taxable REIT subsidiaries are required to pay income taxes at the applicable rates. The consolidated income tax provision or benefit includes the income tax provision or benefit related to the operations of the taxable REIT subsidiary as well as state income taxes incurred by the REITs and Master Companies.

Where required, deferred income taxes are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities and their respective income tax bases and for operating loss, capital loss and tax credit carryforwards based on enacted income tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that is more likely than not they will be realized based on consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies.

The Company has made no provision for federal or state income taxes (other than the provisions consolidated from wholly-owned subsidiaries), since the profits and losses are reported by the individual owners. The Company performs an annual review for any uncertain tax positions and will record expected future tax consequences of uncertain tax positions in its financial statements. At December 31, 2010 and 2009, the Company did not identify any uncertain tax positions.

3. Acquisition of Hotel Properties

On January 8, 2009, RLJ Fund II, through wholly-owned subsidiaries, acquired a 100% interest in the 168-room Hilton Garden Inn Bloomington hotel for a purchase price of approximately $20.7 million. The hotel is located in Bloomington, Indiana. WLS was selected to manage the hotel. The acquisition was financed using proceeds from a mortgage of approximately $14.8 million and operating capital.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

3. Acquisition of Hotel Properties (Continued)

On February 25, 2009, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 298-room Hilton Garden Inn New York/West 35th Street hotel for a purchase price of approximately $125.0 million. The hotel is located in New York, New York. Highgate Hotels was engaged to manage the hotel. The acquisition was initially financed by borrowings on the credit facility and capital contributions and subsequently by mortgage proceeds of approximately $60.0 million.

On April 15, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 360-room Embassy Suites Tampa-Downtown Convention Center hotel for a purchase price of approximately $77.0 million. The hotel is located in Tampa, Florida. Embassy Suites Management was engaged to manage the hotel. The acquisition was initially financed by borrowings on the credit facility and capital contributions and subsequently by mortgage loan proceeds of approximately $40.0 million.

On June 1, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 196-room Fairfield Inn & Suites Washington, DC/Downtown hotel for a purchase price of approximately $40.0 million. The hotel is located in Washington, DC. Urgo Hotels was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On June 23, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 150-room Embassy Suites Ft Myers-Estero hotel for a purchase price of approximately $13.3 million. The hotel is located in Fort Myers, Florida. Embassy Suites Management was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On July 1, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 175-room Homewood Suites by Hilton Washington hotel for a purchase price of approximately $58.5 million. The hotel is located in Washington, DC. Crestline Hotels and Resorts was engaged to manage the hotel. The acquisition was initially financed by borrowings on the credit facility and capital contributions and subsequently by mortgage loan proceeds of approximately $31.0 million.

On September 22, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 280-room Hilton New York/Fashion District for a purchase price of approximately $121.8 million. The hotel is located in New York, New York. Highgate Hotels was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On October 14, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 123-room Hampton Inn & Suites Denver Tech Center hotel for a purchase price of approximately $12.9 million. The hotel is located in Denver, Colorado. K Partners Hospitality Group was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On October 26, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 133-room Garden District hotel for a purchase price of approximately $6.4 million. The hotel is located in New Orleans, Louisiana. The hotel will remain closed during renovations and should re-open in the next twelve to eighteen months. The acquisition was financed by borrowings on the credit facility and capital contributions.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

3. Acquisition of Hotel Properties (Continued)

On November 5, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 108-room Residence Inn Columbia hotel for a purchase price of approximately $14.0 million. The hotel is located in Ellicott City, Maryland. Marriott Hotel Services was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On November 5, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 162-room Residence Inn National Harbor Washington, DC hotel for a purchase price of approximately $49.0 million. The hotel is located in National Harbor, Maryland. Marriott Hotel Services was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On November 5, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 130-room Residence Inn Silver Spring hotel for a purchase price of approximately $25.0 million. The hotel is located in Silver Spring, Maryland. Marriott Hotel Services was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On November 16, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 284-room Hilton Garden Inn New Orleans Convention Center hotel for a purchase price of approximately $25.2 million. The hotel is located in New Orleans, Louisiana. Interstate Management Company was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On November 18, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 105-room Hampton Inn West Palm Beach Central Airport hotel for a purchase price of approximately $12.1 million. The hotel is located in West Palm Beach, Florida. Interstate Management Company was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On November 18, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 100-room Hilton Garden Inn West Palm Beach Airport hotel for a purchase price of approximately $12.1 million. The hotel is located in West Palm Beach, Florida. Interstate Management Company was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On December 17, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 160-room Hollywood Heights Hotel for a purchase price of approximately $29.4 million. The hotel is located in Los Angeles, California. Interstate Management Company was engaged to manage the hotel. The acquisition was financed by borrowings on the credit facility and capital contributions.

On December 23, 2010, RLJ Fund III, through wholly-owned subsidiaries, acquired a 95% interest in the 759-room Doubletree Metropolitan Hotel New York City. The total purchase price was approximately $335.0 million. The hotel is located in New York, New York. Highgate Hotels was engaged to manage the hotel. The acquisition was financed using proceeds from a senior mortgage loan of $150 million, a mezzanine loan of $50 million and capital contributions.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

3. Acquisition of Hotel Properties (Continued)

The allocation of purchase price for the hotel properties acquired was as follows:

	December 31,	
	2010	2009
	(in thousands)	
Land and land improvements	$ 250,125	$ 26,535
Buildings and improvements	546,940	113,602
Furniture, fixtures and equipment	34,717	5,382
Intangibles	1,298	—
Total purchase price	**$ 833,080**	**$ 145,519**

There were no contingent consideration arrangements associated with these acquisitions nor was any goodwill recognized. See Note 17 for detail of non-cash prorations assumed at acquisition dates.

Total revenues and net loss from the hotels acquired in 2010 of $33.0 million and $8.9 million, respectively, are included in the accompanying combined consolidated statements of operations for the year ended December 31, 2010. Total revenues and net income from the hotels acquired in 2009 of $23.9 million and $1.3 million, respectively, are included in the accompanying combined consolidated statements of operations for the year ended December 31, 2009.

The following unaudited pro forma financial information presents the results of operations as if the 2010 acquisitions had taken place on the latter of January 1, 2009 or the opening date of the hotel. The Garden District Hotel acquired on October 26, 2010 has been closed since 2008 and accordingly has no operating history and is excluded from the condensed pro forma financial information. The results of operations for the 2009 acquisitions for the period not owned were not significant compared to the Company's results of operations. The results of operations for the 2008 acquisitions are presented as if the acquisitions had taken place on January 1, 2008. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2009.

	For the Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Revenue	$ 667,448	$ 614,699	$ 565,592
Net loss	$ (2,939)	$ (163,729)	$ (31,901)

4. Discontinued Operations

On January 31, 2007, RLJ Development, through wholly-owned subsidiaries, sold four hotels for $270.0 million, resulting in a gain of approximately $163.7 million. During 2008, RLJ Development settled certain expenses with the purchaser of those hotels and recorded an additional gain on sale of properties of $43.

On November 16, 2009, RLJ Development, through wholly-owned subsidiaries, entered into a purchase and sale agreement to sell six hotels. The assets were reclassified as held for sale and the operating results for the hotels were reclassified to discontinued operations. On April 23, 2010, RLJ

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

4. Discontinued Operations (Continued)

Development completed the sale of the six hotels for a total purchase price of $73.5 million. The sale resulted in a gain of approximately $23.7 million.

On April 23, 2010, the Company defeased five individual mortgages associated with the aforementioned six hotels sold on April 23, 2010 by replacing the original collateral with government securities. These loans carried an outstanding balance of $34.3 million at December 31, 2009. On April 28, 2010, the Company fully repaid the remaining outstanding $8.5 million mortgage loan associated with the six hotels sold on April 23, 2010, including a mortgage prepayment penalty totaling $153.

The aforementioned six RLJ Development mortgage notes included financial and other covenants that required the maintenance of certain ratios. As of December 31, 2009, RLJ Development was in compliance with all covenants under the six mortgage notes.

At December 31, 2009 the balance sheet of the assets held for sale were as follows:

	2009 (in thousands)
Assets	
Cash held in escrow	$ 1,546
Accounts receivable, net	499
Prepaid expenses and other current assets	252
Property and equipment, net	49,406
Deferred financing costs, net	63
Total assets	**$ 51,766**
Liabilities	
Accounts payable	$ 492
Accrued expenses	1,104
Advance deposits	15
Mortgage notes payable	42,775
Total liabilities	**$ 44,386**

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

4. Discontinued Operations (Continued)

Comparative operating results of discontinued operations were as follows:

	For the Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Net revenues	$ 6,771	$ 21,738	$ 24,964
Operating expenses	5,144	17,708	19,224
Operating income	1,627	4,030	5,740
Interest expense	(3,192)	(3,573)	(3,672)
Net income from discontinued operations, before gain on sale	(1,565)	457	2,068
Gain on sale of properties	23,710	—	43
Net income from discontinued operations	**$ 22,145**	**$ 457**	**$ 2,111**

5. Investment in Hotel Properties

Investment in hotel properties as of December 31, 2010 and 2009 consisted of the following (excluding discontinued operations):

	December 31,	
	2010	2009
	(in thousands)	
Land and land improvements	$ 487,971	$ 237,915
Buildings and improvements	2,188,213	1,637,852
Furniture, fixtures and equipment	310,266	262,963
Intangibles	1,298	—
	2,987,748	2,138,730
Accumulated depreciation and amortization	(361,058)	(261,147)
Investment in hotel properties, net	**$ 2,626,690**	**$ 1,877,583**

For the years ended December 31, 2010, 2009 and 2008, depreciation and amortization expense related to investment in hotel properties was approximately $99.9 million, $95.4 million and $83.7 million (excluding discontinued operations), respectively.

Impairment

During the year ended December 31, 2010, the Company determined there was no impairment on its investment in hotels. During the years ended December 31, 2009 and 2008, as a result of the general economic recession and reduced demand for its hotel rooms and services resulting from an overall decline in travel demand, the Company assessed the recoverability of the carrying value for all of the hotel assets in the portfolio. This assessment resulted in the Company determining that 17 and five hotels, respectively, had carrying values in excess of undiscounted cash flows, and accordingly recorded an impairment charge totaling $98.4 million and $21.5 million, respectively.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

6. Investment in Loans

On November 3, 2009, RLJ Fund III purchased two mortgage loans collateralized by the SpringHill Suites Houston Medical Park and the Residence Inn Atlanta Midtown. The purchase price was $12.7 million, and was financed by borrowings on the credit facility. The loans mature on September 6, 2017, amortize based on a 30 year term and, as of December 31, 2010, had a principal balance of $14.2 million and $10.8 million, respectively. The acquired loans were of deteriorated credit quality as the loans were already in default at the date of the Company's acquisition of the loans, and therefore the amounts paid for the loans reflected the Company's determination that it was probable the Company would be unable to collect all amounts due pursuant to the loan's contractual terms.

Investment in loans as of December 31, 2010 and 2009 consisted of the following:

	December 31,	
	2010	2009
Note secured by SpringHill Suites Houston Medical Park	$ 14,229	$ 14,431
Note secured by Residence Inn Atlanta Midtown	10,771	10,932
	25,000	25,363
Carrying amount of loans	$ 12,840	$ 12,899

	Accretable Yield
Balance at December 31, 2009	$ —
Reclassification from nonaccretable difference	7,212
Accretion	(43)
Balance at December 31, 2010	$ 7,169

The SpringHill Suites Houston Medical Park and Residence Inn Atlanta Midtown loans require monthly payments of principal and interest of $88 and $65, respectively. Subsequent to acquisition, RLJ Fund III, through wholly-owned subsidiaries, began the foreclosure process to protect its investment. On July 16, 2010, RLJ Fund III settled and reinstated both of the loans purchased and reported as investment in loans on the combined consolidated balance sheets. The loans were brought current when the borrower paid all outstanding regular monthly payments due plus default interest of $815 and reimbursement of legal fees of $100. For the year ended December 31, 2010, interest income from the loans was $2.2 million, including $815 of default interest. For the year ended December 31, 2009, interest income from the loans was approximately $56.

7. Long-Term Debt

Credit Facility

RLJ Fund II, through wholly-owned subsidiaries, maintained a credit facility that provided for maximum borrowings of up to $100.0 million. The credit facility was collateralized by RLJ Fund II's partners' committed and uncalled capital and was guaranteed by RLJ Fund II. On May 8, 2008, RLJ Fund II terminated its credit facility.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

7. Long-Term Debt (Continued)

Borrowings under the credit facility bore interest at variable rates equal to the London InterBank Offered Rate ("LIBOR") plus a margin of 0.75%. For the year ended December 31, 2008, the weighted average interest rate for borrowings under the credit facility was approximately 4.75%.

RLJ Fund II incurred interest expense related to the credit facility of approximately $147 for the year ended December 31, 2008. Additionally, there was an unused commitment fee of 0.175% of the unused portion of the credit facility. RLJ Fund II incurred an unused commitment fee of approximately $49 for the year ended December 31, 2008.

RLJ Fund III, through wholly-owned subsidiaries, maintains a credit facility that provides for maximum borrowings of up to $200.0 million. The credit facility is collateralized by RLJ Fund III's partners' committed and uncalled capital and is guaranteed by RLJ Fund III. The credit facility matured on January 31, 2011. Borrowings under the credit facility bear interest at variable rates equal to the London InterBank Offered Rate ("LIBOR") plus a margin of 0.75%. For the years ended December 31, 2010, 2009 and 2008, the weighted average interest rate for borrowings under the credit facility was approximately 1.04%, 1.01% and 3.90%, respectively.

RLJ Fund III incurred interest expense related to the credit facility of approximately $1.0 million, $1.3 million and $533 for the years ended December 31, 2010, 2009 and 2008, respectively. Additionally, there is an unused commitment fee of 0.15% of the unused portion of the credit facility. RLJ Fund III incurred an unused commitment fee of approximately $156, $119 and $262 for the years ended December 31, 2010, 2009 and 2008, respectively.

RLJ Fund III is subject to a letter of credit with a value of approximately $1.9 million related to securing a swap agreement on certain variable rate mortgages. No balances have been drawn on this letter of credit as of December 31, 2010. Its issuance reduces the amount available on the credit facility by the entire $1.9 million value.

At December 31, 2010 and 2009, RLJ Fund III had outstanding borrowings under the credit facility of approximately $0 and $146.0 million, respectively. At December 31, 2010 and 2009, RLJ Fund III had approximately $198.1 million and $50.4 million, respectively, available for borrowing.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

7. Long-Term Debt (Continued)

Mortgage Loans

As of December 31, 2010 and 2009, the Company is subject to the following mortgage loans (excluding loans collateralized by properties that are held for sale):

Lender	Number of Assets Encumbered	Interest rate at December 31, 2010(1)	Maturity Date	Prepayment penalty	Principal balance at December 31, 2010	Principal balance at December 31, 2009
Capmark Financial Group	1	1.36%(2)	July 2010	(3)	$ 58,000	$ 58,000
Keybank / State Street Bank(5)	6	5.23%(2)	April 2011(4)	(3)	85,000	85,000
Capmark Financial Group	1	2.01%	June 2011	(3)	72,246	74,092
Merrill Lynch	10	1.86%(2)	July 2011	(3)	92,000	92,000
Wells Fargo	1	5.59%	Jan 2012(4)	(3)	23,967	24,710
Wells Fargo / GE	13	5.69%	Feb 2012(4)	(6)	186,392	199,573
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	10,818	12,250
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	9,975	11,400
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	12,350	13,815
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	10,334	11,765
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	22,934	23,330
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	11,078	12,530
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	11,355	11,560
Capmark Financial Group	1	5.50%	May 2012(7)	(3)	13,339	14,840
Wells Fargo	1	5.50%	June 2013(8)	(6)	60,000	—
Wells Fargo	1	5.50%	Oct 2013(8)	(6)	40,000	—
Wells Fargo	1	5.50%	Oct 2013(8)	(6)	31,000	—
Wells Fargo	1	4.90%	Dec 2013(8)	(6)	150,000	—
Blackstone		10.75%	Dec 2013(8)	(6)	50,000	—
Capmark Financial Group	1	6.12%	April 2015	(9)	4,446	4,557
Capmark Financial Group	1	5.50%	May 2015	(9)	5,123	5,260
Capmark Financial Group	1	5.55%	May 2015	(9)	11,997	12,319
Capmark Financial Group	1	5.55%	June 2015	(9)	5,205	5,344
Barclay's Bank	1	5.55%	June 2015	(9)	2,718	2,791
Barclay's Bank	1	5.55%	June 2015	(9)	4,462	4,581
Barclay's Bank	1	5.55%	June 2015	(9)	10,400	10,678
Barclay's Bank	1	5.55%	June 2015	(9)	9,282	9,530
Barclay's Bank	1	5.55%	June 2015	(9)	8,317	8,537
Barclay's Bank	1	5.60%	June 2015	(9)	5,751	5,904
Barclay's Bank	1	5.60%	June 2015	(9)	8,956	9,174
Barclay's Bank	1	5.55%	June 2015	(9)	5,450	5,595
Barclay's Bank	1	5.55%	June 2015	(9)	36,135	37,099
Barclay's Bank	1	5.60%	June 2015	(9)	6,861	7,043
Barclay's Bank	1	5.55%	June 2015	(9)	6,116	6,279
Barclay's Bank	1	5.55%	June 2015	(9)	7,028	7,215
Barclay's Bank	1	5.60%	June 2015	(9)	8,952	9,189
Barclay's Bank	1	5.55%	June 2015	(9)	7,018	7,204
Barclay's Bank	1	5.55%	June 2015	(9)	7,724	7,929
Barclay's Bank	1	5.55%	June 2015	(9)	7,028	7,216
Barclay's Bank	1	5.55%	June 2015	(9)	8,023	8,237
Barclay's Bank	1	5.55%	June 2015	(9)	10,068	10,336
Capmark Financial Group	1	5.50%	July 2015	(9)	7,083	7,272
Barclay's Bank	1	5.44%	Sept 2015	(9)	11,547	11,853
Merrill Lynch	1	6.29%	July 2016	(10)	9,403	9,505
Merrill Lynch	1	6.29%	July 2016	(10)	5,605	5,662
Merrill Lynch	1	6.29%	July 2016	(10)	7,871	7,956
Merrill Lynch	1	6.29%	July 2016	(10)	9,416	9,510
Wachovia Securities	43	6.29%	July 2016	(10)	499,132	504,549
Wachovia Securities	1	6.29%	July 2016	(10)	6,742	6,815
Wells Fargo / Morgan Stanley	2	6.29%	July 2016	(10)	35,669	36,056
Wells Fargo / Morgan Stanley	1	6.29%	July 2016	(10)	6,916	6,992
Wells Fargo / Morgan Stanley	1	6.29%	July 2016	(10)	9,845	9,956
	120				**$ 1,747,077**	**$ 1,453,008**

(1) Interest rate at December 31, 2010 gives effect to interest rate swaps and LIBOR floors, where applicable.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

7. Long-Term Debt (Continued)

(2) Requires payments of interest only.

(3) Prepayment of this loan is not subject to a prepayment penalty.

(4) Maturity date may be extended for one additional year at the Company's option (subject to our prior satisfaction of certain conditions, including, among others, maintenance of a specified debt service coverage ratio and advance notice of the exercise of our option).

(5) The Keybank/State Street Bank loans are comprised of a senior and a mezzanine loan, which, as of December 31, 2010 had outstanding balances of $48 million and $37 million, respectively.

(6) The loan is subject to a prepayment penalty in an amount calculated as a percentage of the outstanding balance at the time of such prepayment.

(7) Maturity date may be extended for up to two additional one-year terms at the Company's option (subject to the Company's prior satisfaction of certain conditions, including, among others, a principal paydown for the first extension, maintenance of a specified debt service coverage ratio for the second extension, and advance notice of the exercise of the Company's option).

(8) Maturity date may be extended for up to two additional one-year terms at the Company's option (subject to the Company's prior satisfaction of certain conditions and advance notice of the exercise of the Company's option).

(9) This loan is subject to defeasance, except during the 90 days prior to the maturity date during which time prepayment of the loan is not subject to a prepayment penalty.

(10) This loan is subject to defeasance, except during the three years prior to the maturity date during which time prepayment of the loan is not subject to a prepayment penalty.

As of December 31, 2010, future minimum principal payments on mortgage loans are as follows:

	(in thousands)
2011	$ 293,304
2012	294,300
2013	345,192
2014	14,896
2015	15,975
Thereafter	783,410
	$ 1,747,077

Some mortgage agreements are subject to customary financial covenants. The Company was in compliance with these covenants at December 31, 2010 and 2009.

In February 2010, RLJ Fund II received a notice of event of default for failure to make the required monthly payment on its mortgage loan secured by the New York LaGuardia Airport Marriott located in New York, NY. The mortgage loan matured in July 2010. In August 2010, RLJ Fund II initiated a deed in lieu of foreclosure process for the mortgage loan. At December 31, 2010, the book value of the New York LaGuardia Airport Marriott equals the fair market value which is less than the mortgage loan balance.

In March 2010, RLJ Fund II amended the Wells Fargo/GE mortgage loan secured by 13 properties, which was previously due and payable in January 2010. In conjunction with the amendment, the mortgage principal balance was paid down to $192.1 million. The amended mortgage loan is subject to a variable rate of interest, currently 5.69%, and requires monthly payments of principal and interest. Additionally, a one-time mortgage amortization payment of $2.5 million was paid in December 2010. The mortgage has a new maturity date of February 2012.

In May 2010, RLJ Fund II restructured certain Capmark Financial Group mortgage loans secured by eight properties. In connection with the restructuring, principal was paid down by $7.5 million on

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

7. Long-Term Debt (Continued)

these loans. The restructured loans are subject to a variable interest rate of LIBOR plus 4.00% and the original maturity dates were extended to May 2012, plus two one-year extensions are available.

8. Commitments and Contingencies

Ground Leases

The Louisville Marriott Downtown is subject to a ground lease with an initial term extending out to 2053. The ground lease may be extended for up to four additional twenty-five year terms at RLJ Fund II's option. The annual ground rent is one dollar; however, the property is subject to an annual profit participation payment based on net income as calculated based on the terms of the ground lease. As of both December 31, 2010 and 2009, no liability was incurred for profit participation.

The Courtyard Austin Downtown/Convention Center and Residence Inn Austin Downtown/Convention Center are subject to a ground lease with a term extending to 2100. The annual ground rent is $400; however, the properties are subject to an annual profit participation payment based on gross revenue as calculated based on the terms of the ground lease. For the years ended December, 31, 2010, 2009 and 2008, approximately $176, $230 and $202, respectively, had been incurred for profit participation.

The Hilton Garden Inn Bloomington is subject to a ground lease with an initial term extending to 2053. The ground lease automatically extends for up to five additional ten-year terms unless certain conditions are met. A de minimus minimum rent payment is to be paid in ten equal annual installments commencing with the twentieth anniversary of the leases' inception. No other payments are required under the terms of the ground lease.

The Hilton Garden Inn Bloomington is subject to an agreement to lease parking spaces with an initial term extending to 2033. The agreement to lease parking spaces may be extended if certain events occur. The agreement provides for a monthly rental payment based on city ordinance rates (at December 31, 2010 and 2009 the rate was de minimis) and the number of parking spaces reserved for the exclusive use of the hotel, plus amounts based on actual usage in excess of the reserved spaces. For the years ended December 31, 2010 and 2009, approximately $110 and $108 of rent was paid.

The Hampton Inn Garden City is subject to a ground lease with an initial term extending to 2016. The lease is associated with an agreement for payment in lieu of taxes and will revert to fee simple ownership at the end of the ground lease. A de minimus rent payment is to be paid annually. In addition, an annual compliance fee of $1 is required under the terms of the ground lease.

Restricted Cash Reserves

The Company is obligated to maintain reserve funds for capital expenditures at the hotels (including the periodic replacement or refurbishment of furniture, fixtures and equipment) as determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents. The management agreements, franchise agreements and/or mortgage loan documents require the Company to reserve restricted cash ranging from 1.0% to 5.0% of the individual hotel's revenues and maintain the reserves in restricted cash reserve escrows. Amounts will be capitalized as incurred. Any unexpended amounts will remain the property of the Company upon termination of the management agreements, franchise agreements or mortgage loan documents. Additionally, some mortgage agreements require the Company to reserve restricted cash for the periodic payment of real

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

8. Commitments and Contingencies (Continued)

estate taxes and insurance. As of December 31, 2010 and 2009, approximately $65.9 million and $52.9 million, respectively, was available in restricted cash reserves for future capital expenditures, real estate taxes and insurance.

As of December 31, 2010, the New York LaGuardia Airport Marriott was in default on its mortgage loan. Under the terms of the mortgage loan, the lender receives the monthly net cash from operations from the hotel. As of December 31, 2010, approximately $4.6 million in cash was held by the lender.

Management Agreements

As of December 31, 2010, all of the Company's hotel properties are operated pursuant to long-term agreements with terms ranging from 3 to 60 years, with fourteen management companies, including Aimbridge Hospitality (two hotels), Concord Hospitality Enterprises Company (one hotel), Crescent Hotels and Resorts (two hotels), Crestline Hotels (one hotel), Embassy Suites Management (three hotels), Highgate Hotels (three hotel), Interstate Hotels (six hotels), K Partners Hospitality (one hotel) Marriott International (five hotels), Noble (one hotel), Stonebridge Realty Advisors, Inc. (one hotel), Urgo Hotels (two hotels) and WLS (104 hotels). Each management company receives a base management fee generally between 2.0% and 7.0% of hotel revenues. The management companies are also eligible to receive an incentive management fee if hotel operating income, as defined in the management agreements, exceeds certain thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on their investment in the hotel.

For years ended December 31, 2010, 2009 and 2008, the Company incurred management fee expense, including amortization of deferred management fees, of approximately $19.1 million, $17.2 million and $21.4 million (excluding discontinued operations), respectively.

Franchise Agreements

As of December 31, 2010, 125 of the Company's hotel properties are operated under franchise agreements with terms ranging from 5 to 34 years. The management agreements for these hotels allow the properties to operate under the respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 2.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 0.4% and 4.3% of room revenue. Certain hotels are also charged a royalty fee of between 2.0% and 3.0% of food and beverage revenues. For the years ended December 31, 2010, 2009 and 2008, the Company incurred franchise fee expense of approximately $33.0 million, $28.8 million and $31.9 million (excluding discontinued operations), respectively.

Litigation

Neither the Company nor any of its subsidiaries are currently involved in any regulatory or legal proceedings that management believes will have a material adverse effect on the financial position, operations or liquidity of the Company.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

8. Commitments and Contingencies (Continued)

Purchase Agreements

As of December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, was subject to a purchase and sale agreement to purchase the Embassy Suites Columbus from 2700 Corporate Exchange Drive Holdings, LLC. RLJ Fund III consummated the transaction pursuant to the terms of the agreement on January 11, 2011, and received its $250 deposit as a credit at closing.

As of December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, was subject to a purchase and sale agreement to purchase the Renaissance Pittsburgh from Fulton Hotel Developer, LLLP. RLJ Fund III consummated the transaction pursuant to the terms of the agreement on January 12, 2011, and received its $2.0 million deposit as a credit at closing.

As of December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, was subject to a purchase and sale agreement to purchase a portfolio of four hotels from LSREF Peach Investments, LLC. RLJ Fund III consummated the transaction pursuant to the terms of the agreement on January 18, 2011, and received its $4.0 million deposit as a credit at closing.

As of December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, was subject to a purchase and sale agreement to purchase the Wyndham Raleigh Durham and the Wyndham Pittsburgh University from W2001 Eastern Hotel Realty. RLJ Fund III consummated the transaction pursuant to the terms of the agreement on January 18, 2011, and received its $2.0 million deposit as a credit at closing.

RLJ Fund III, through wholly-owned subsidiaries, is subject to a security deposit agreement with the Federal Deposit Insurance Corporation (the "FDIC") for the opportunity to pursue properties seized by the government. If RLJ Fund III breaches the confidentiality agreement, it may forfeit its deposit. The agreement requires a $250 deposit which is available to be refunded at RLJ Fund III's request to terminate, or if granted by the FDIC even with breach of confidentiality.

9. Owners' Equity

Partners' Capital

As of December 31, 2010, the RLJ Fund II partners had made aggregate capital contributions of approximately $726.2 million. In addition, $16.8 million of advisory fees, which reduce limited partner capital commitments, have been paid by the limited partners to the Fund II General Partner. Accordingly, 100.0% of total capital commitments have been committed as of December 31, 2010. As of December 31, 2010, RLJ Fund II had made distributions of approximately $150.1 million, in aggregate, including approximately $23.2 million of advisory fees distributed to the Fund II General Partner on behalf of the limited partners.

As of December 31, 2010, the RLJ Fund III partners had made aggregate capital contributions of approximately $807.0 million. In addition, $47.6 million of advisory fees, which reduce limited partner capital commitments, have been paid by the limited partners to the Fund III General Partner. Accordingly, 71.7% of total capital commitments have been deployed as of December 31, 2010. As of December 31, 2010, RLJ Fund III had made no distributions.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

9. Owners' Equity (Continued)

Members' Capital

The rights and obligations of the equity holders of RLJ Development (the "Members") are governed by its limited liability company agreement of RLJ Development dated December 19, 2000, and amended January 1, 2002 (the "Operating Agreement"). Each member's interest in the Company is equal to the percentage of capital initially contributed by that Member. The Class A Members hold a 75% ownership interest and the two Class B members hold a total interest of 25%. The Class A Members have made capital contributions totalling $115.3 million none of which were contributed during the years ended December 31, 2010 and 2009. The Class B Members were not required to make, nor have they made any, capital contributions during the years ended December 31, 2010 and 2009.

Series A Preferred Units

On October 24, 2006, the Fund II Investment REITs (through the Fund II Initial REIT and the Fund II Parallel REIT) completed two private offerings of 125 units each (250 units in the aggregate) of 12.5% cumulative non-voting preferred units for an aggregate amount of $250. The units have no par value and have a liquidation value of $1. Dividends are paid semi-annually on June 30 and December 31. The units are redeemable by the Initial REIT and the Fund II Parallel REIT, respectively, for the liquidation value plus accumulated and unpaid dividends plus, if redeemed before December 31, 2011, a redemption premium. After deducting underwriting discounts and commissions and other offering costs, the Fund II Investment REITs raised aggregate net proceeds of approximately $189.

On December 17, 2007, the Fund III Investment REITs (through the Fund III Initial REIT and the Fund III Parallel REIT) completed two private offerings of 125 units each (250 units in the aggregate) of 12.5% cumulative non-voting preferred units for an aggregate amount of $250. The units have no par value and have a liquidation value of $1. Dividends are paid semi-annually on June 30 and December 31. The units are redeemable by the Fund III Initial REIT and the Fund III Parallel REIT, respectively, for the liquidation value plus accumulated and unpaid dividends plus, if redeemed before December 31, 2012, a redemption premium. After deducting underwriting discounts and commissions and other offering costs, the Fund III Investment REITs raised aggregate net proceeds of approximately $190.

As of December 31, 2010, an aggregate of approximately $131 had been distributed to Fund II preferred unitholders.

As of December 31, 2010, an aggregate of approximately $93 had been distributed to Fund III preferred unitholders.

10. Financial Instruments: Derivatives and Hedging

The Company employs interest rate swaps and caps to hedge against interest rate fluctuations. Unrealized gains and losses are reported in other comprehensive income (loss) with no effect recognized in earnings as long as the characteristics of the swap and the hedged item are closely

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

10. Financial Instruments: Derivatives and Hedging (Continued)

matched. The ineffective portion of all hedges is recognized in earnings in the current period. As of December 31, 2010 and 2009, the Company has entered into the following interest rate swaps and caps:

Hedge type	Notional Value at December 31, 2010	Notional Value at December 31, 2009	Swap Interest Rate	Maturity	Fair Value at December 31, 2010	Fair Value at December 31, 2009
	(in thousands)				(in thousands)	
Swap-cash flow	$ —	$ 33,919	5.10%	1/19/2010	$ —	$ (151)
Swap-cash flow	—	12,250	5.09%	5/17/2010	—	(274)
Swap-cash flow	—	58,000	5.08%	6/13/2010	—	(1,504)
Swap-cash flow	—	11,400	5.33%	6/21/2010	—	(322)
Interest rate cap	—	75,000	5.00%	6/23/2010	—	—
Swap-cash flow	—	13,815	5.33%	6/27/2010	—	(403)
Swap-cash flow	—	11,765	5.33%	6/27/2010	—	(343)
Interest rate cap	—	60,000	5.00%	7/11/2010	—	—
Interest rate cap	—	16,000	5.00%	7/11/2010	—	—
Interest rate cap	—	16,000	5.00%	7/11/2010	—	—
Swap-cash flow	—	23,330	5.33%	7/15/2010	—	(733)
Swap-cash flow	—	11,418	5.49%	7/18/2010	—	(377)
Swap-cash flow	—	12,090	5.49%	7/18/2010	—	(399)
Swap-cash flow	—	12,530	4.94%	8/2/2010	—	(391)
Swap-cash flow	—	19,903	4.94%	8/23/2010	—	(670)
Swap-cash flow	—	11,560	4.94%	8/30/2010	—	(398)
Swap-cash flow	—	40,300	4.77%	10/3/2010	—	(1,491)
Swap-cash flow	—	24,852	4.77%	10/3/2010	—	(920)
Swap-cash flow	—	14,839	4.76%	10/15/2010	—	(565)
Swap-cash flow	—	12,090	4.72%	11/30/2010	—	(513)
Swap-cash flow	—	10,075	4.72%	11/30/2010	—	(427)
Swap-cash flow	28,269	28,269	3.09%	1/22/2011	(120)	(811)
Interest rate cap	48,000	48,000	6.00%	4/9/2011	—	—
Interest rate cap	37,000	37,000	6.00%	4/9/2011	—	—
Swap-cash flow	8,732	8,732	3.45%	4/30/2011	(114)	(328)
Interest rate cap	73,168	—	5.00%	6/9/2011	—	—
Interest rate cap	60,000	—	5.00%	7/15/2011	—	—
Interest rate cap	16,000	—	5.00%	7/15/2011	—	—
Interest rate cap	16,000	—	5.00%	7/15/2011	—	—
Swap-cash flow	11,418	11,418	3.33%	9/22/2011	(266)	(449)
Swap-cash flow	85,000	85,000	3.33%	9/22/2011	(2,095)	(3,460)
Interest rate cap	60,000	—	5.00%	6/29/2012	18	—
Interest rate cap	50,000	—	3.50%	12/23/2012	71	—
Swap-cash flow	150,000	—	1.15%	12/23/2012	(1,384)	—
Swap-cash flow	40,000	—	1.00%	10/6/2013	39	—
Swap-cash flow	31,000	—	1.00%	10/6/2013	31	—
	$ 714,587	**$ 719,555**			**$ (3,820)**	**$ (14,929)**

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

10. Financial Instruments: Derivatives and Hedging (Continued)

As of December 31, 2010 and 2009, there was approximately $3.8 million and $14.9 million, respectively, in unrealized losses included in accumulated other comprehensive loss, a component of owners' equity, related to interest rate hedges that are effective in offsetting the variable cash flows. For the years ended December 31, 2010, 2009 and 2008 there was approximately $58, $150 and $373, respectively, in unrealized gains recognized in earnings related to hedges that were ineffective in offsetting variable cash flows.

Over time, the unrealized gains reported in accumulated other comprehensive loss will be reclassified to interest income. The unrealized gains are reclassified to earnings during the same period the associated hedged items are also recognized in earnings. For the years ended December 31, 2010, 2009 and 2008, the Company reclassified approximately $58, $150 and $373, respectively, of accumulated other comprehensive loss to earnings as interest income in conjunction with interest rate swaps. As of December 31, 2010, there were no ineffective hedges. The Company does not anticipate reclassifying any unrealized gains to interest income over the next twelve months.

11. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The fair value hierarchy has three levels of inputs, both observable and unobservable:

- Level 1—Inputs include quoted market prices in an active market for identical assets or liabilities.
- Level 2—Inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data.
- Level 3—Inputs are unobservable and corroborated by little or no market data.

Recurring Fair Value Measurements: The following table presents the Company's fair value hierarchy for those financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010.

	Fair Value at December 31, 2010			
	Level 1	Level 2	Level 3	Total
		(in thousands)		
Interest rate swap liability	$ —	$ (3,820)	$ —	$ (3,820)

Consistent with the prior year, the fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. The Company determined that the significant inputs, such as interest yield curves and discount rates, used to value its derivatives fall within Level 2 of the fair value hierarchy and that the credit valuation adjustments associated with the Company's counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. As of December 31, 2010, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

11. Fair Value Measurements (Continued)

derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

For purposes of determining impairment charges in 2009 and 2008, investments in hotel properties were valued using third-party appraisals. These appraisals include various valuation techniques that require inputs that are both observable and unobservable. Inputs used to value the hotel properties include discount and capitalization rates and sales comparables where available and appropriate. These valuations are generally classified within Level 3 of the valuation hierarchy.

12. Advisory Fees

Pursuant to the terms of the Fund II LP Agreements, the Fund II General Partner is entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund II General Partner providing and managing the day-to-day operations and expenditures of RLJ Fund II. Total advisory fees due to the Fund II General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the years ended December 31, 2010, 2009 and 2008 were approximately $8.6 million, $8.6 million and $8.2 million, respectively. As of December 31, 2010, 2009 and 2008 all advisory fees due had been paid.

Pursuant to the terms of the Fund III LP Agreements, the Fund III General Partner is entitled to receive annual advisory fees directly from the limited partners in consideration for the Fund III General Partner providing and managing the day-to-day operations and expenditures of RLJ Fund III. Total advisory fees due to the General Partner from limited partners, including advisory fees due from the limited partners admitted during subsequent closes, for the years ended December 31, 2010, 2009 and 2008 were approximately $13.7 million, per year. As of December 31, 2010, 2009 and 2008, all advisory fees had been paid by the limited partners.

The combined consolidated financial statements of the Company reflect these advisory fees as contributions and distributions within the respective partner accounts. As a result of the combination of RLJ Development with RLJ Fund II and RLJ Fund III and after elimination entries, the actual expenses associated with operating RLJ Fund II and RLJ Fund III have been reflected in these financial statements.

13. Related Party Transactions

For the years ended December 31, 2010, 2009 and 2008, RLJ Fund II, through wholly owned subsidiaries, incurred management and franchise fees of approximately $1.0 million, $1.0 million and $2.6 million, respectively, to affiliates of Marriott International, a related party through its limited partnership interests in RLJ Fund II and RLJ Fund III. As of both December 31, 2010 and 2009, RLJ Fund II had no management and franchise fees payable to affiliates of Marriott International.

For the years ended December 31, 2010, 2009 and 2008, RLJ Fund III, through wholly-owned subsidiaries, incurred management and franchise fees of approximately $103, $0 and $0, respectively, to affiliates of Marriott International, a related party through its limited partnership interest in RLJ Fund III. As of December 31, 2010 and 2009, RLJ Fund III had no management and franchise fees payable to affiliates of Marriott International.

For the year ended December 31, 2010, RLJ Fund III, through wholly-owned subsidiaries, incurred management fees of approximately $966, to affiliates of Highgate Hotels, a related party. As of

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

13. Related Party Transactions (Continued)

December 31, 2010, RLJ Fund III had $177 of management fees payable to affiliates of Highgate Hotels.

In 2009, the Fund III Master Company borrowed from the credit facility (see Note 7) to advance approximately $10.3 million to the General Partner of RLJ Fund III, creating a receivable of $10.3 million at December 31, 2009 from the Fund III General Partner at the Master Company. The receivable was paid in full in January 2010.

The Company pays monthly fees for management advisory services to the managing member of RLJ Development. Such fees amounted to $2.3 million, $1.8 million and $1.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

RLJ Companies LLC, a related party, periodically pays certain amounts on the Company's behalf. As of December 31, 2010 and 2009, amounts due to RLJ Companies LLC totaled $61 and $39, respectively.

During 2010 and 2009, the Company paid certain costs on the behalf of RLJ Development (Mexico), LLC, a related party through common ownership, and RLJ Development (Mexico), LLC paid for certain amounts on the Company's behalf. At December 31, 2009 and 2008, the amounts due from RLJ Development (Mexico), LLC were $684 and $481, respectively.

During 2010 and 2009, the Company made charitable contributions totaling $320 and $326, respectively, which are included in general and administrative expense. These charitable contributions were paid to various foundations and charitable organizations, of which $55 and $105, respectively, were directed by related parties.

14. Income Taxes

For federal income tax purposes, the cash distributions paid to the preferred unitholders and to the Company may be characterized as ordinary income, return of capital (generally non-taxable) or capital gains. The following characterizes partner distributions made to the Company and preferred unitholders for the years ended December 31, 2010 and 2009:

	For the Years Ended December 31,	
	2010	2009
Partner distributions		
Ordinary income	100.00%	—
Return of capital	—	100.00%
Capital gains	—	—
	100.00%	**100.00%**
Preferred distributions		
Ordinary income	100.00%	—
Return of capital	—	100.00%
Capital gains	—	—
	100.00%	**100.00%**

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

14. Income Taxes (Continued)

The components of the income tax provision are as follows:

	For the Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Current:			
Federal	$ —	$ —	$ —
State	(997)	(1,801)	(883)
Other	—	—	—
Deferred:			
Federal	52	—	1,694
State	—	—	134
Total net deferred tax (expense)/benefit	**$ (945)**	**$ (1,801)**	**$ 945**

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income from continuing operations for the years ended December 31, 2010, 2009 and 2008 as a result of the following differences:

	For the Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Expected federal tax benefit at statutory rate	$ 14,897	$ 56,650	$ 11,007
Tax impact of passthrough entities	(5,850)	(5,690)	(5,578)
Tax impact of REIT election	2,162	(37,702)	1,050
Expected tax benefit at TRS	11,209	13,258	6,479
Change in valuation allowance	(12,426)	(13,589)	(5,309)
State income tax benefit (expense), net of federal tax benefit	143	(556)	(206)
Other, net	129	(914)	(19)
Income tax (expense) benefit	**$ (945)**	**$ (1,801)**	**$ 945**

During 2009, the Company identified an unrecorded prior period (2007) state tax expense totaling $981 which was corrected in the 2009 Statement of Operations as an adjustment to increase current period income tax expense.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

14. Income Taxes (Continued)

Deferred income taxes represent the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets (liabilities) include the following:

	December 31, 2010	December 31, 2009
	(in thousands)	
Property and equipment	$ —	$ (3,978)
Prepaid expenses	(794)	(531)
Accrued interest	(5)	—
Gross deferred tax liabilities	$ (799)	$ (4,509)
Property and equipment	$ 2,070	$ —
Allowance for doubtful accounts	158	50
Incentive and vacation accrual	1,189	804
Inventory basis difference	37	33
Transaction costs	135	208
Alternative minimum tax credit carryforward	26	78
Net operating loss carryforwards	28,507	22,232
Valuation allowance	(31,323)	(18,896)
Gross deferred tax assets	$ 799	$ 4,509

The Company recorded a valuation allowance of approximately $31.3 million and $18.9 million related to its net operating loss, or NOL, carryforwards and other deferred tax assets at December 31, 2010 and 2009, respectively, as the Company believed it was more likely than not that it would not realize the benefits associated with these NOLs and other deferred tax assets. The ability to carry forward the NOLs of approximately $28.5 million will begin to expire in 2026, if not utilized by then. If the Company's TRS entities were to experience a change in control as defined in Section 382 of the Code, the TRS's ability to utilize NOLs in the years after the change in control would be limited.

The net current and non-current components of deferred income taxes included in the combined consolidated balance sheets are as follows:

	December 31, 2010	December 31, 2009
	(in thousands)	
Current net deferred tax assets	$ —	$ —
Current net deferred tax liabilities	(799)	(4,509)
Non-current net deferred tax assets	799	4,509
Non-current net deferred tax liabilities	—	—
Net deferred tax liability	$ —	$ —

We had no accruals for tax uncertainties as of December 31, 2010 and 2009.

15. Comprehensive Loss

For the years ended December 31, 2010, 2009 and 2008, comprehensive loss was approximately $11.6 million, $150.8 million and $47.0 million, respectively. As of December 31, 2010 and 2009, the

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

15. Comprehensive Loss (Continued)

Company's accumulated other comprehensive loss was approximately $3.8 million and $14.9 million, respectively. The accumulated other comprehensive loss resulted entirely from the Company's unrealized losses on its interest rate derivative instruments.

16. Segment Information

The Company separately evaluates the performance of each of its hotels. However, because each of the hotels has similar economic characteristics, facilities, and services, the properties have been aggregated into a single operating segment.

17. Supplemental Information to Statement of Cash Flows

	For the Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Interest paid	$ 83,670	$ 87,761	$ 95,595
Income taxes paid	$ 1,934	$ 1,814	$ 975
Supplemental non-cash transactions:			
In conjunction with the hotel acquisitions, the Company assumed the following assets and liabilities:		(in thousands)	
Purchase of real estate	$ 833,080	$ 145,519	$ 173,649
Assumption of loans	—	—	(85,000)
Accounts receivable	878	11	292
Other assets	6,942	170	712
Advance deposits	(624)	(134)	(141)
Accounts payable and accrued expenses	(3,568)	(251)	(1,666)
Less: Noncontrolling interest	(7,836)	—	—
Acquisition of hotel properties	$ 828,872	$ 145,315	$ 87,846
In conjunction with the hotel disposals, the Company disposed of the following assets and liabilities:			
Sale of real estate	$ 49,452	$ —	$ —
Accounts receivable	225	—	—
Other assets	61	—	—
Advance deposits	(26)	—	—
Other liabilities	(675)	—	—
Gain on sale of property	23,710	—	—
Disposition of hotel properties	$ 72,747	$ —	$ —
Change in fair market value of interest rate swaps and caps	$ 11,108	$ 17,354	$ (17,294)

18. Subsequent Events

On January 5, 2011, RLJ Fund III issued a capital call notice to partners, calling an aggregate contribution of approximately $67.9 million, including approximately $2.5 million of advisory fees payable to the General Partner.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

18. Subsequent Events (Continued)

On January 11, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 221-room Embassy Suites Columbus hotel for a purchase price of approximately $9.6 million. The hotel is located in Columbus, Ohio. Crescent Hotels and Resorts was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 12, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 300-room Renaissance Pittsburgh Hotel for a purchase price of approximately $47.3 million. The hotel is located in Pittsburgh, Pennsylvania. Sage Hospitality was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 14, 2011, RLJ Fund III entered into a $140 million unsecured term loan. RLJ Fund III has agreed to maintain an unencumbered asset pool of ten hotel properties during the term of the credit facility. The credit facility has an original maturity date of September 30, 2011, with two six-month extension options, and bears interest at LIBOR plus 4.25%, with a LIBOR floor of 1.00%.

On January 18, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 181-room Courtyard Atlanta Buckhead hotel for a purchase price of approximately $27.0 million. The hotel is located in Atlanta, Georgia. Noble Management Group was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 18, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 152-room Doubletree Hotel Columbia for a purchase price of approximately $10.5 million. The hotel is located in Columbia, Maryland. Urgo Hotels was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 18, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 238-room Denver Airport Marriott at Gateway Park hotel for a purchase price of approximately $46.0 million. The hotel is located in Denver, Colorado. Sage Hospitality was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 18, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 219-room Crowne Plaza Hotel West Palm Beach for a purchase price of approximately $16.0 million. The hotel is located in West Palm Beach, Florida. Windsor Capital Group was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 24, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 175-room Wyndham Raleigh Durham-Research Triangle Park hotel for a purchase price of approximately $7.0 million. The hotel is located in Durham, North Carolina. Noble Management Group was engaged to manage the hotel. The acquisition was financed by capital contributions.

On January 24, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 198-room Wyndham Pittsburgh hotel for a purchase price of approximately $21.3 million. The hotel is located in Pittsburgh, Pennsylvania. Urgo Hotels was engaged to manage the hotel. The acquisition was financed by capital contributions.

On March 14, 2011, RLJ Fund III, through wholly-owned subsidiaries, acquired a 100% interest in the 176-room Hampton Inn Houston—Near the Galleria for a purchase price of approximately $20.3 million. The hotel is located in Houston, Texas. Interstate Management Company was engaged to manage the hotel. The acquisition was financed by capital contributions.

The RLJ Predecessor

Notes to Combined Consolidated Financial Statements (Continued)

(Amounts in thousands)

18. Subsequent Events (Continued)

The following unaudited pro forma financial information presents the results of operations as if the 2011 acquisitions had taken place on the latter of January 1, 2010 or the opening date of the hotel. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what actual results of operations would have been had the acquisitions taken place on January 1, 2010.

	For the Year Ended December 31, 2010
Revenue	$ 615,585
Net loss	$ (15,177)

The preliminary allocation of purchase price for the hotel properties acquired was as follows:

	December 31, 2010
Land and land improvements	$ 29,131
Buildings and improvements	153,557
Furniture, Fixtures and equipment	22,182
	$ 204,870

The Company has evaluated all subsequent events through the date the financial statements were issued, and no additional matters have come to our attention.

19. Other Subsequent Events (unaudited)

On April 9, 2011, RLJ Fund III, through wholly-owned subsidiaries, exercised the third of three one-year loan extensions on the Keybank/State Street Bank loans. The loans will now mature on April 9, 2012.

THE RLJ PREDECESSOR
Schedule III—Real Estate and Accumulated Depreciation

December 31, 2010

(Dollars in thousands)

		Initial Costs		Subsequent Costs	Gross Amount at December 31, 2010					
Description	Debt	Land	Building & Improvements	Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Marriott Airport Austin South	$ 22,043	$ 2,252	$ 16,522	$ 1,337	$ 2,252	$ 17,859	$ 20,111	$ 1,966	2006	40
Marriott Denver South @ Park Meadow	39,154	5,384	39,488	269	5,384	39,757	45,141	4,538	2006	40
Marriott Louisville Downtown	72,244	—	89,541	19	—	89,560	89,560	10,254	2006	40
Marriott Pontiac	13,806	3,437	25,224	22	3,437	25,246	28,683	2,892	2006	40
Marriott Midway	28,027	4,464	32,736	555	4,464	33,291	37,755	3,797	2006	40
Renaissance Boulder Suites @ Flatiron	18,833	4,440	32,557	3	4,440	32,560	37,000	3,730	2006	40
Renaissance Plantation	25,361	4,842	35,517	187	4,842	35,704	40,546	4,079	2006	40
Holiday Inn Austin NW Plaza	11,844	1,546	11,337	443	1,546	11,780	13,326	1,335	2006	40
Courtyard Austin Central	14,559	1,894	13,891	536	1,894	14,427	16,321	1,628	2006	40
Courtyard Austin NW Parmer Lane	12,547	1,443	10,585	609	1,443	11,194	12,637	1,248	2006	40
Courtyard Austin South	5,450	1,530	11,222	96	1,530	11,318	12,848	1,268	2006	40
Courtyard Benton Harbor	2,595	345	2,534	130	345	2,664	3,009	297	2006	40
Courtyard Brandon	10,617	1,036	7,599	53	1,036	7,652	8,688	1,155	2006	40
Courtyard Chicago Downtown Mag Mile	36,135	8,140	59,696	1,783	8,140	61,479	69,619	6,761	2006	40
Courtyard Fort Wayne	9,713	1,143	8,389	180	1,143	8,569	9,712	973	2006	40
Courtyard Golden	6,861	1,325	9,716	43	1,325	9,759	11,084	1,096	2006	40
Courtyard Goshen	5,605	356	2,614	114	356	2,728	3,084	410	2006	40
Courtyard Grand Rapids Airport	4,446	706	5,185	142	706	5,327	6,033	581	2006	40
Courtyard Hammond	7,871	1,038	7,616	114	1,038	7,730	8,768	879	2006	40
Courtyard Indy Capital	17,709	2,482	18,207	127	2,482	18,334	20,816	2,092	2006	40
Courtyard Lakewood	2,718	536	3,931	19	536	3,950	4,486	445	2006	40
Courtyard Longmont/Boulder	6,116	1,192	8,745	83	1,192	8,828	10,020	988	2006	40
Courtyard Louisville	9,282	1,640	12,025	55	1,640	12,080	13,720	1,358	2006	40
Courtyard Louisville NE	9,448	1,374	10,079	153	1,374	10,232	11,606	1,158	2006	40
Courtyard Merrillville	9,144	537	3,943	283	537	4,226	4,763	737	2006	40
Courtyard Mesquite	7,235	942	6,915	58	942	6,973	7,915	797	2006	40
Courtyard Midway	9,593	2,172	15,927	206	2,172	16,133	18,305	2,373	2006	40
Courtyard Mishawaka/South Bend	7,024	640	4,699	71	640	4,770	5,410	721	2006	40
Courtyard Pontiac	6,910	482	3,543	73	482	3,616	4,098	641	2006	40
Courtyard Salt Lake City Airport	18,172	2,333	17,110	46	2,333	17,156	19,489	1,964	2006	40
Courtyard San Antonio Airport Northstar	9,849	1,196	8,768	458	1,196	9,226	10,422	1,030	2006	40
Courtyard Sugarland	8,251	1,217	8,931	48	1,217	8,979	10,196	1,025	2006	40
Courtyard Valparaiso	4,690	248	1,825	50	248	1,875	2,123	370	2006	40
Courtyard Schaumburg	13,173	2,078	15,239	10	2,078	15,249	17,327	1,621	2007	40
Courtyard Miramar	10,664	1,619	11,872	—	1,619	11,872	13,491	1,039	2007	40
Courtyard Austin Downtown	37,638	6,049	44,361	—	6,049	44,361	50,410	3,607	2007	40
Courtyard Grand Junction	10,664	1,576	11,754	—	1,576	11,754	13,330	711	2008	40
Courtyard Austin Airport	11,291	1,691	12,404	1,030	1,691	13,434	15,125	967	2007	40
Residence Inn Austin NW	11,477	1,403	10,290	33	1,403	10,323	11,726	1,182	2006	40
Residence Inn Austin South Airport	6,853	802	5,883	5	802	5,888	6,690	675	2006	40
Residence Inn Austin Parmer Lane	8,023	1,483	10,872	36	1,483	10,908	12,391	1,227	2006	40
Residence Inn Carmel	8,952	1,646	12,076	143	1,646	12,219	13,865	1,366	2006	40
Residence Inn Fishers	8,335	998	7,322	33	998	7,355	8,353	843	2006	40
Residence Inn Golden	7,018	1,222	8,963	26	1,222	8,989	10,211	1,011	2006	40
Residence Inn Hammond	6,917	980	7,190	123	980	7,313	8,293	833	2006	40
Residence Inn Galleria	17,606	2,665	19,549	21	2,665	19,570	22,235	2,242	2006	40
Residence Inn Indianapolis Airport	7,728	786	5,772	167	786	5,939	6,725	806	2006	40

THE RLJ PREDECESSOR
Schedule III—Real Estate and Accumulated Depreciation

December 31, 2010 (Continued)

(Dollars in thousands)

		Initial Costs			Gross Amount at December 31, 2010					
Description	Debt	Land	Building & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Residence Inn Indianapolis Canal	17,960	2,670	19,588	345	2,670	19,933	22,603	2,262	2006	40
Residence Inn Lakewood	4,462	986	7,230	13	986	7,243	8,229	815	2006	40
Residence Inn Longmont	7,028	1,407	10,321	—	1,407	10,321	11,728	1,162	2006	40
Residence Inn Louisville	8,431	1,298	9,519	46	1,298	9,565	10,863	1,094	2006	40
Residence Inn Louisville NE	7,724	1,319	9,675	71	1,319	9,746	11,065	1,092	2006	40
Residence Inn Merrillville	7,112	595	4,372	190	595	4,562	5,157	780	2006	40
Residence Inn Novi	7,083	1,427	10,445	24	1,427	10,469	11,896	1,178	2006	40
Residence Inn Oakbrook	11,547	—	20,436	—	—	20,436	20,436	2,299	2006	40
Residence Inn Plantation	19,943	2,183	16,021	3	2,183	16,024	18,207	2,240	2006	40
Residence Inn Pontiac	10,502	320	2,354	163	320	2,517	2,837	782	2006	40
Residence Inn Round Rock	11,566	1,684	12,349	133	1,684	12,482	14,166	1,417	2006	40
Residence Inn Salt Lake City	9,403	875	6,416	37	875	6,453	7,328	739	2006	40
Residence Inn San Antonio Downtown	11,454	1,822	13,360	23	1,822	13,383	15,205	1,533	2006	40
Residence Inn Schaumburg	10,357	1,790	13,124	245	1,790	13,369	15,159	1,516	2006	40
Residence Inn South Bend	3,391	603	4,425	231	603	4,656	5,259	518	2006	40
Residence Inn Sugarland	7,500	1,100	8,073	20	1,100	8,093	9,193	926	2006	40
Residence Inn Chicago Naperville	10,068	1,923	14,101	11	1,923	14,112	16,035	1,588	2006	40
Residence Inn Downtown Louisville	11,291	1,815	13,308	—	1,815	13,308	15,123	1,331	2007	40
Residence Inn Miramar	11,291	1,692	12,409	5	1,692	12,414	14,106	1,087	2007	40
Residence Inn Grand Junction	8,155	870	9,197	8	870	9,205	10,075	604	2008	40
Residence Inn Austin Downtown	23,210	3,767	27,626	11	3,767	27,637	31,404	2,246	2007	40
SpringHill Suites North Parmer Lane	7,028	1,957	14,351	2	1,957	14,353	16,310	1,615	2006	40
SpringHill Suites Austin South Airport	12,061	1,605	11,768	77	1,605	11,845	13,450	1,355	2006	40
SpringHill Suites Carmel	8,956	1,816	13,320	580	1,816	13,900	15,716	1,527	2006	40
SpringHill Suites Louisville Hurstbourne	8,317	1,890	13,869	526	1,890	14,395	16,285	1,586	2006	40
SpringHill Suites Mishawaka South Bend	5,751	983	7,217	51	983	7,268	8,251	949	2006	40
SpringHill Suites Schaumburg	10,124	1,554	11,396	485	1,554	11,881	13,435	1,329	2006	40
SpringHill Suites Southfield	5,123	379	2,782	17	379	2,799	3,178	611	2006	40
SpringHill Suites Westminster	10,400	2,409	17,670	109	2,409	17,779	20,188	1,994	2006	40
SpringHill Suites Longmont	7,214	1,144	8,388	11	1,144	8,399	9,543	840	2007	40
Fairfield Inn Austin Central	4,002	556	4,078	23	556	4,101	4,657	469	2006	40
Fairfield Inn Austin South	4,298	505	3,702	16	505	3,718	4,223	425	2006	40
Fairfield Inn Brandon	10,072	926	6,795	103	926	6,898	7,824	1,015	2006	40
Fairfield Inn & Suites Cherry Creek	11,316	1,203	8,823	104	1,203	8,927	10,130	1,018	2006	40
Fairfield Inn Hammond	6,742	722	5,301	251	722	5,552	6,274	623	2006	40
Fairfield Inn Indianapolis Airport	6,763	657	4,820	257	657	5,077	5,734	667	2006	40
Fairfield Inn & Suites Key West	14,164	1,803	19,325	—	1,803	19,325	21,128	2,078	2006	40
Fairfield Inn Memphis	1,590	163	1,199	46	163	1,245	1,408	195	2006	40
Fairfield Inn Merrillville	7,479	768	5,636	41	768	5,677	6,445	650	2006	40
Fairfield Inn Midway	5,205	1,425	10,449	44	1,425	10,493	11,918	1,200	2006	40
Fairfield Inn San Antonio Airport	9,416	1,140	8,363	94	1,140	8,457	9,597	965	2006	40

THE RLJ PREDECESSOR
Schedule III—Real Estate and Accumulated Depreciation

December 31, 2010 (Continued)

(Dollars in thousands)

		Initial Costs			Gross Amount at December 31, 2010					
Description	Debt	Land	Building & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Fairfield Inn San Antonio Downtown	8,580	1,378	10,105	52	1,378	10,157	11,535	1,162	2006	40
Fairfield Inn Valparaiso	2,266	157	1,157	2	157	1,159	1,316	216	2006	40
Holiday Inn Select Kentwood	4,054	582	4,274	2	582	4,276	4,858	655	2006	40
Hampton Inn Merrillville	5,783	665	4,879	109	665	4,988	5,653	566	2006	40
Holiday Inn Express Merrillville	5,158	545	4,005	77	545	4,082	4,627	464	2006	40
Hampton Inn Chicago Midway Airport	16,555	2,747	20,143	357	2,747	20,500	23,247	2,325	2006	40
Hilton Garden Inn Midway	21,418	2,978	21,842	—	2,978	21,842	24,820	2,503	2006	40
Sleep Inn Midway Airport	10,326	1,189	8,718	20	1,189	8,738	9,927	1,236	2006	40
Holiday Inn Express Hotel & Suites Midway Airport	12,892	1,874	13,742	232	1,874	13,974	15,848	1,590	2006	40
Homewood Suites Brandon	9,410	1,377	10,099	—	1,377	10,099	11,476	778	2007	40
Hilton Garden Inn Bloomington	13,801	—	18,945	—	—	18,945	18,945	948	2009	40
TGIFriday's	2,403	829	6,139	148	829	6,287	7,116	694	2006	40
Marriott LaGuardia	58,000	4,860	27,540	14	4,860	27,554	32,414	4,976	2007	40
Hilton Garden Inn St. George	10,818	1,822	13,363	17	1,822	13,380	15,202	1,226	2007	40
SpringHill Suites Bakersfield	9,975	1,560	8,838	—	1,560	8,838	10,398	1,027	2007	40
SpringHill Suites Gainesville	12,350	4,018	12,118	—	4,018	12,118	16,136	1,055	2007	40
Hampton Inn & Suites Clearwater	10,334	1,106	12,721	—	1,106	12,721	13,827	1,093	2007	40
Hampton Inn Garden City	22,934	5,691	22,764	10	5,691	22,774	28,465	1,991	2007	40
Hampton Inn & Suites Las Vegas / Summerlin	11,078	2,341	4,609	6	2,341	4,615	6,956	527	2007	40
Courtyard Houston Galleria	18,589	3,069	22,508	8	3,069	22,516	25,585	1,923	2007	40
Hampton Inn Fort Walton Beach	11,357	8,774	6,109	96	8,774	6,205	14,979	499	2007	40
Hilton Mystic	13,339	6,092	9,111	119	6,092	9,230	15,322	722	2007	40
Embassy Suites Downey	23,967	4,857	29,943	1,317	4,857	31,260	36,117	2,257	2008	40
Summerfield Suites Colorado Springs	8,900	1,453	8,234	—	1,453	8,234	9,687	514	2008	40
Summerfield Suites Austin	13,650	2,813	15,940	54	2,813	15,994	18,807	998	2008	40
Summerfield Suites Lincoln Park	20,280	3,169	17,958	20	3,169	17,978	21,147	1,123	2008	40
Summerfield Suites Dallas Uptown	15,600	2,241	12,698	—	2,241	12,698	14,939	793	2008	40
Summerfield Suites Richardson	10,112	1,445	8,186	—	1,445	8,186	9,631	511	2008	40
Summerfield Suites Houston Galleria	16,458	2,976	16,866	83	2,976	16,949	19,925	1,057	2008	40
Hilton Garden Inn New York/West 35th Street	60,000	24,244	96,978	17	24,244	96,995	121,239	4,647	2009	40
Embassy Suite Tampa Downtown Convention Center	40,000	2,161	71,017	1	2,161	71,018	73,179	1,175	2010	40
Red Roof Inn DC	—	16,214	22,265	11	16,214	22,276	38,490	496	2010	40
Embassy Suites Fort Myers Estero	—	2,816	7,862	—	2,816	7,862	10,678	141	2010	40
Homewood Suites Washington DC	31,000	23,139	34,188	—	23,139	34,188	57,327	605	2010	40
Hilton New York / Fashion District (Fashion 26)	—	35,592	82,392	—	35,592	82,392	117,984	787	2010	40

THE RLJ PREDECESSOR
Schedule III—Real Estate and Accumulated Depreciation

December 31, 2010 (Continued)

(Dollars in thousands)

		Initial Costs			Gross Amount at December 31, 2010					
Description	Debt	Land	Building & Improvements	Subsequent Costs Capitalized	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date Acquired	Depreciation Life
Hampton Inn & Suites Denver Tech Center	—	2,373	9,180	—	2,373	9,180	11,553	68	2010	40
Garden District	—	1,901	3,865	—	1,901	3,865	5,766	—	2010	40
Residence Inn Columbia	—	1,993	11,487	—	1,993	11,487	13,480	49	2010	40
Residence Inn National Harbor	—	7,457	37,046	—	7,457	37,046	44,503	167	2010	40
Residence Inn Silver Spring	—	3,945	18,896	—	3,945	18,896	22,841	87	2010	40
Hilton Garden Inn New Orleans Convention Center	—	3,405	20,750	—	3,405	20,750	24,155	83	2010	40
Hampton Inn West Palm Beach Central Airport	—	2,280	9,769	—	2,280	9,769	12,049	35	2010	40
Hilton Garden Inn West Palm Beach Central Airport	—	1,206	10,811	—	1,206	10,811	12,017	36	2010	40
Hollywood Heights Hotel	—	5,303	19,136	—	5,303	19,136	24,439	38	2010	40
Doubletree Metropolitan Hotel New York City	200,000	140,273	188,072	—	140,273	188,072	328,345	553	2010	40
	$1,747,077	$ 487,971	$ 2,171,033	$ 17,180	$ 487,971	$ 2,188,213	$2,676,184	$ 175,432		

Until , 2011 (25 days after the date of this prospectus), all dealers that effect transactions in our common shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Shares

RLJ Lodging Trust

Common Stock

PROSPECTUS

BofA Merrill Lynch

Barclays Capital

Wells Fargo Securities

, 2011

PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

Item 31. ***Other Expenses of Issuance and Distribution.***

The following table sets forth the costs and expenses of the sale and distribution of the securities being registered, all of which are being borne by us. All amounts shown are estimates except for the SEC registration fee and the Financial Industry Regulatory Authority, Inc., or FINRA, filing fee.

SEC registration fee	$ 63,855
FINRA filing fee	$ 50,500
NYSE listing fee	*
Printing and engraving fees	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Miscellaneous Expenses	$ *
Total	$ *

* To be completed by amendment.

Item 32. ***Sales to Special Parties.***

None.

Item 33. ***Recent Sales of Unregistered Securities.***

In connection with our formation and initial capitalization, on January 31, 2011, we issued 500 common shares to our Executive Chairman, Robert L. Johnson, and 500 common shares to our President and Chief Executive Officer, Thomas J. Baltimore, Jr., for an aggregate purchase price of $1,000. These shares were issued in reliance on the exemption set forth in Section 4(2) of the Securities Act. Upon completion of this offering, we will repurchase these shares from Messrs. Johnson and Baltimore for an aggregate of $1,000.

In connection with our formation transactions, an aggregate of common shares and OP units with an initial aggregate value of $ million (based on the midpoint of the price range set forth on the cover page of the prospectus that forms a part of this registration statement) will be issued to certain persons transferring interests and other assets to us in consideration of the transfer of such interests and assets. All such persons had a substantive, pre-existing relationship with us and made irrevocable elections to receive such securities in our formation transactions prior to the filing of this registration statement with the SEC. All of such persons are "accredited investors" as defined under Regulation D of the Securities Act. The issuance of such shares will be effected in reliance upon exemptions from registration provided by Section 4(2) of the Securities Act and pursuant to Rule 506 of Regulation D of the Securities Act.

Item 34. ***Indemnification of Trustees and Officers.***

The Maryland REIT law permits a Maryland real estate investment trust to include in its declaration of trust a provision limiting the liability of its trustees and officers to the trust and its shareholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property or services or active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our declaration of trust will contain such a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The Maryland REIT law permits a Maryland real estate investment trust to indemnify and advance expenses to its trustees, officers, employees and agents to the same extent as permitted by the MGCL for directors and officers of a Maryland corporation. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or if the trustee or officer was adjudged liable on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses.

In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or on the director's behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the trustee did not meet the standard of conduct.

Our declaration of trust and bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former trustee or officer (including any individual who, at our request, serves or has served as a director, officer, partner, trustee, employee or agent of another real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise) against any claim or liability to which he or she may become subject by reason of service in such capacity; and
- any present or former trustee or officer who has been successful in the defense of a proceeding to which he or she was made a party by reason of service in such capacity.

Our declaration of trust and bylaws also permit us, with the approval of our board of trustees, to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

In addition, upon completion of this offering, we intend to enter into indemnification agreements with each of our trustees and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

Insofar as the foregoing provisions permit indemnification of trustees, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion

of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 35. ***Treatment of Proceeds from Shares Being Registered.***

None.

Item 36. ***Financial Statements and Exhibits.***

(a) Financial Statements.

See page F-1 for an index of the financial statements included in this Registration Statement on Form S-11.

(b) Exhibits.

The list of exhibits following the signature page of this Registration Statement on Form S-11 is incorporated herein by reference.

Item 37. ***Undertakings.***

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the purchase agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to trustees, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a trustee, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such trustee, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Bethesda, State of Maryland on April 13, 2011.

RLJ LODGING TRUST

By: /s/ THOMAS J. BALTIMORE, JR.

Thomas J. Baltimore, Jr.
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following person in the capacities and on the dates indicated.

Signature	Title	Date
*	Executive Chairman and Trustee	April 13, 2011
Robert L. Johnson		
/s/ THOMAS J. BALTIMORE, JR.	President, Chief Executive Officer and Trustee (principal executive officer)	April 13, 2011
Thomas J. Baltimore, Jr.		
/s/ LESLIE D. HALE	Chief Financial Officer (principal financial and accounting officer)	April 13, 2011
Leslie D. Hale		

*By: /s/ THOMAS J. BALTIMORE, JR.

Thomas J. Baltimore, Jr.
Attorney-in-Fact

EXHIBIT INDEX

Exhibit Number	Exhibit Description
1.1*	Form of Purchase Agreement
2.1**	Merger Agreement, dated as of February 1, 2011, by and among RLJ Lodging Fund II, L.P., RLJ Lodging Fund II (PF #1), L.P., RLJ Lodging Trust and RLJ Capital Partners II, LLC
2.2**	Merger Agreement, dated as of February 1, 2011, by and among RLJ Real Estate Fund III, L.P., RLJ Real Estate Fund III (PF #1), L.P., RLJ Lodging Trust and RLJ Capital Partners III, LLC
2.3**	Contribution Agreement, dated as of February 1, 2011, by and between RLJ Lodging Trust and RLJ Development, LLC
2.4*	First Amendment to Contribution Agreement, dated as of April , 2011, by and between RLJ Lodging Trust and RLJ Development, LLC
3.1*	Articles of Amended and Restated Declaration of Trust of RLJ Lodging Trust
3.2*	Amended and Restated Bylaws of RLJ Lodging Trust
4.1*	Form of Specimen Common Share Certificate
4.2	Registration Rights Agreement by and among RLJ Lodging Trust and the persons listed on Schedule I thereto
4.3*	Registration Rights Agreement by and among RLJ Lodging Trust and the persons listed on Schedule I thereto
5.1*	Opinion of Hogan Lovells US LLP regarding the validity of the securities being registered
8.1*	Opinion of Hogan Lovells US LLP regarding tax matters
10.1*	Amended and Restated Agreement of Limited Partnership of RLJ Lodging Trust, L.P.
10.2	RLJ Lodging Trust 2011 Equity Incentive Plan
10.3	Form of Restricted Share Agreement
10.4	Form of Restricted Share Agreement for Trustees
10.5	Form of Non-Qualified Option Agreement
10.6	Form of Share Units Agreement
10.7*	Form of Indemnification Agreement between RLJ Lodging Trust and each of its Executive Officers and Trustees
10.8*	Employment Agreement dated as of , 2011 between RLJ Lodging Trust and Robert L. Johnson
10.9*	Employment Agreement dated as of , 2011 between RLJ Lodging Trust and Thomas J. Baltimore, Jr.
10.10*	Employment Agreement dated as of , 2011 between RLJ Lodging Trust and Leslie D. Hale
10.11*	Employment Agreement dated as of , 2011 between RLJ Lodging Trust and Ross H. Bierkan
10.12	Form of the Wachovia Mortgage
10.13	Form of the Wachovia Note
10.14	Form of WLS Management Agreement

Exhibit Number	Exhibit Description
21.1*	List of Subsidiaries of RLJ Lodging Trust
23.1	Consent of PricewaterhouseCoopers LLP
23.2*	Consent of Hogan Lovells US LLP (included in Exhibit 5.1)
23.3*	Consent of Hogan Lovells US LLP (included in Exhibit 8.1)
23.4	Consent of Senator Evan Bayh to be named as a trustee nominee
23.5	Consent of Nathaniel A. Davis to be named as a trustee nominee
23.6	Consent of Robert M. La Forgia to be named as a trustee nominee
23.7	Consent of Glenda G. McNeal to be named as a trustee nominee
23.8	Consent of Joseph Ryan to be named as a trustee nominee
24.1**	Power of Attorney

* To be filed by amendment.

** Previously filed.

Registration Rights Agreement

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made and entered into as of **[·]**, 2011 by and between RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), and the holders listed on Schedule I hereto (each an "Initial Holder" and, collectively, the "Initial Holders").

WHEREAS, the Company intends to engage in various related transactions (collectively, the "IPO Transactions") pursuant to which, among other things, the Company will effect an initial public offering of common shares of beneficial interest, par value $0.01 per share (the "Common Shares");

WHEREAS, in connection with the IPO Transactions, the Company intends to engage in certain consolidation transactions (the "Consolidation Transactions") pursuant to which, among other things, the Initial Holders will receive Common Shares on the closing date of the Consolidation Transactions in exchange for their respective interests in the entities participating in the Consolidation Transactions (the "Private Placement Shares"), as set forth on Schedule I hereto; and

WHEREAS, the Company has agreed to grant to the Initial Holders (and their permitted assignees and transferees) the registration rights described in this Agreement (the "Registration Rights").

NOW, THEREFORE, the parties hereto, in consideration of the foregoing, the mutual covenants and agreements hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, hereby agree as follows:

SECTION 1. DEFINITIONS

The following capitalized terms used herein have the following meanings:

"Agreement" is defined in the preamble hereto.

"Blackout Period" is defined in Section 2.1(f) hereof.

"Business Day" any Monday, Tuesday, Wednesday, Thursday or Friday other than a day on which banks and other financial institutions are authorized or required to be closed for business in the State of New York.

"Commission" means the U.S. Securities and Exchange Commission.

"Common Shares" is defined in the recitals hereto.

"Company" is defined in the preamble hereto.

"Consolidation Transactions" is defined in the recitals hereto.

"Demand Registration Notice" is defined in Section 2.1(a) hereof.

"Demand Registration Statement" is defined in Section 2.1(a) hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Holder" means (a) any Initial Holder who is the record or beneficial owner of any Registrable Security or (b) any assignee or transferee of such Initial Holder, provided such assignee or transferee agrees in writing to be bound by the all the provisions hereof.

"Initial Holder" is defined in the preamble hereto.

"IPO Closing Date" means the closing date of the Company's initial public offering.

"IPO Transactions" is defined in the recitals hereto.

"Maximum Threshold" is defined in Section 2.1(d) hereof.

"Outside Date" means September 30, 2011.

"Person" means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

"Prospectus" means the prospectus or prospectuses included in any Demand Registration Statement or other registration statement contemplated by Section 2.1(e), including any documents incorporated therein by reference.

"Registrable Securities" means the Private Placement Shares and any additional Common Shares issued with respect thereto by way of share dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise, and any Common Shares or shares of common stock issuable upon conversion, exercise or exchange thereof.

"Registration Rights" is defined in the recitals hereto.

"Registration Statement" means a Demand Registration Statement or other registration statement contemplated by Section 2.1(e), including any documents incorporated therein by reference.

"Securities Act" means the Securities Act of 1933, as amended.

"Suspension Event" is defined in Section 2.2(a) hereof.

"Underwritten Offering" is defined in Section 2.1(d) hereof.

"Underwritten Offering Notice" is defined in Section 2.1(d) hereof.

SECTION 2. REGISTRATION RIGHTS

2.1 Demand Registration Rights.

(a) Demand Registration. Subject to Sections 2.1(f) and 2.2 hereof, at any time after the date that is 180 days after the IPO Closing Date, each Holder may deliver to the Company a written notice (a "Demand Registration Notice") informing the Company of such Holder's desire to have some or all of its Registrable Securities registered for resale and specifying

the number of Registrable Securities to be registered by the Company ("Demand Registration"). Upon receipt of a Demand Registration Notice from a Holder requesting registration of the lesser of (i) two hundred thousand (200,000) Registrable

Securities or (ii) all of such Holder's Registrable Securities, if the Company has not already caused such Registrable Securities to be included as part of an existing shelf registration statement and related prospectus that the Company then has on file with, and which has been declared effective by, the Commission and which remains in effect and not subject to any stop order, injunction or other order or requirement of the Commission (in which event the Company shall be deemed to have satisfied its registration obligation under this Section 2.1 with respect to such Registrable Securities), then the Company shall cause to be filed with the Commission as soon as reasonably practicable after receiving the Demand Registration Notice, but in no event more than sixty (60) days following receipt of such notice, a new registration statement and related prospectus covering the resale of the Registrable Securities on a delayed or continuous basis (the "Demand Registration Statement"), which complies as to form in all material respects with applicable Commission rules providing for the sale by such Holder or group of Holders of such Registrable Securities. The Company agrees (subject to Section 2.2 hereof) to use commercially reasonable efforts to cause the Demand Registration Statement to be declared effective by the Commission as soon as practicable.

Subject to Section 2.2 hereof, the Company agrees to use commercially reasonable efforts to keep any Demand Registration Statement continuously effective (including the preparation and filing of any amendments and supplements necessary for that purpose) until the earlier of (i) the date that is two (2) years after the date of effectiveness of such Demand Registration Statement, (ii) the date on which all of the Registrable Securities covered by such Demand Registration Statement are eligible for sale without registration pursuant to Rule 144 (or any successor provision) under the Securities Act without volume limitations or other restrictions on transfer thereunder, or (iii) the date on which the Holder or Holders consummate the sale of all of the Registrable Securities registered under such Demand Registration Statement.

Notwithstanding the foregoing, the Company may at any time (including, without limitation, prior to or after receiving a Demand Registration Notice from a Holder), in its sole discretion, include all additional Registrable Securities then outstanding or any portion thereof in any registration statement, including by virtue of adding such Registrable Securities as additional securities to a Demand Registration Statement or an existing shelf registration statement pursuant to Rule 462(b) under the Securities Act (in which event the Company shall be deemed to have satisfied its registration obligation under this Section 2.1(a) with respect to the Registrable Securities so included, so long as such registration statement remains effective and not the subject of any stop order, injunction or other order of the Commission).

(b) Notice to Holders. Upon receipt of a valid Demand Registration Notice, the Company shall give written notice of the proposed filing of the Demand Registration Statement to all other Holders as soon as practicable, and each Holder who wishes to participate in such Demand Registration Statement shall notify the Company in writing within ten (10) Business Days after the receipt by the Holder of the notice from the Company, and shall specify in such notice the number of Registrable Securities to be included in the Demand Registration Statement.

(c) Offers and Sales. All offers and sales of Registrable Securities covered by a Demand Registration Statement by the Holder thereof shall be completed within the period during which such Demand Registration Statement remains effective and not the subject of any stop order, injunction or other order of the Commission. Upon notice that such Demand Registration Statement is no longer effective, no Holder will offer or sell the Registrable Securities covered by such Demand Registration Statement. If directed in writing by the Company, each Holder will return all undistributed copies of the related Prospectus in such Holder's possession upon the expiration of such period.

(d) Underwritten Registered Resales. If (i) at any time after the date that is 180 days after the IPO Closing Date a Holder or Holders deliver to the Company a Demand Registration Notice requesting registration of a number of Registrable Securities equal to at least twenty percent (20%) of the Private Placement Shares originally issued in the Consolidation Transactions or (ii) at any time after the date that is 365 days after the IPO Closing Date a Holder or Holders deliver to the Company a Demand Registration Notice requesting registration of a number of Registrable Securities equal to at least ten percent (10%) of the Private Placement Shares originally issued in the Consolidation Transactions (an "Underwritten Offering Notice"), then such Holder(s) shall be entitled to effect the sale of such Registrable Securities through an underwritten public offering (an "Underwritten Offering"); provided, however, that the Company shall not be obligated to effect more than three Underwritten Offerings under this Section 2.1(d); and provided, further, that the Company shall not be obligated to effect, or take any action to effect, an Underwritten Offering (i) within one hundred eighty (180) days following the last date on which an Underwritten Offering was effected pursuant to this Section 2.1(d) or during any lock-up period required by the underwriters in any prior Underwritten Offering conducted by the Company on its own behalf or on behalf of selling shareholders, or (ii) during the period commencing with the date thirty (30) days prior to the Company's good faith estimate of the date of filing of (provided the Company is actively employed in good faith commercially reasonable efforts to file such registration statement), and ending on a date sixty (60) days after the effective date of, a registration statement with respect to an offering by the Company with respect to which the Company gave notice pursuant to Section 2.2(a). Upon receipt of a valid Underwritten Offering Notice for an Underwritten Offering in accordance with the terms of this Section 2.1(d), the Company shall give written notice of the proposed Underwritten Offering to all other Holders as soon as practicable, and each Holder who wishes to participate in such Underwritten Offering shall notify the Company in writing within ten (10) Business Days after the receipt by the Holder of the notice from the Company, and shall specify in such notice the number of Registrable Securities to be included in the Underwritten Offering. The Company shall be entitled to select the managing underwriters for any such Underwritten Offering. The Company shall cooperate with the Holder(s) and such managing underwriters in connection with any such offering, including without limitation entering into such customary agreements (including underwriting and lock-up agreements in customary form) and taking all such other customary actions as the Holders or the managing underwriters of such Underwritten Offering reasonably request in order to expedite or facilitate the disposition of the Registrable Securities subject to such Underwritten Offering (including, without limitation, making members of senior management of the Company available to participate in "road show" and other customary marketing activities), making available customary financial and other records, pertinent corporate documents and properties of the Company for review by the underwriters and their counsel and causing to be delivered to the underwriters opinions of counsel to the Company and comfort letters from the Company's accountants in customary form, covering such matters as are customarily covered in an underwritten public offering, as the managing underwriters may request and addressed to the underwriters.

If, upon receipt of an Underwritten Offering Notice, the Company determines to offer Common Shares or other equity securities for its own account, it shall be entitled to register the sale of Common Shares or other equity securities in such Underwritten Offering and to otherwise participate in such Underwritten Offering on the same terms as the Holder(s); provided, however, that if the managing underwriter(s) for an Underwritten Offering advises the Company and the Holders of Registrable Securities that in their opinion the dollar amount or number of Common Shares or other securities that the Company desires to sell, taken together with Common Shares as to which registration has been requested under this Section 2.1(d), exceeds the maximum dollar amount or maximum number of securities that can be sold in such offering without adversely affecting the proposed offering price, the timing, the distribution method, or the probability of success of such offering (such maximum dollar amount or maximum number of securities, as applicable, the "Maximum Threshold"), then the Company shall include in such registration statement: (i) Registrable Securities with respect to which registration has

been requested pursuant to an Underwritten Offering Notice (pro rata in accordance with the number of Registrable Securities that such Holder or Holders have requested be included in such Underwritten Offering) in a dollar amount or maximum number of securities, as applicable, equal to seventy-five (75)% of the Maximum Threshold and (ii) Common Shares or other securities that the Company desires to sell for its own account in a dollar amount or maximum number of securities, as applicable, equal to twenty-five (25)% of the Maximum Threshold.

(e) Limitations on Registration Rights. During any period when the Company is not eligible to file a registration statement on Form S-3, each Holder and its permitted assignees collectively shall be entitled to five (5) exercises of the Registration Rights under Section 2.1(a); provided, that during any period when the Company is eligible to file a registration statement on Form S-3, each Holder and its permitted assignees shall have no limitation on the number of exercises of the Registration Rights under Section 2.1(a); provided, however, that the Holders, collectively and as a group, shall not be permitted under any circumstances to exercise the Registration Rights under Section 2.1(a) more than once in any consecutive six (6) month period and the Company shall not be obligated to effect any Demand Registration Statement within six (6) months after the effective date of a previous Demand Registration Statement. Notwithstanding the foregoing, if a Registration Statement has not been declared effective by the Commission within one hundred twenty (120) days after the original filing date or is suspended for more than ninety (90) days at any one time, the Holders shall be deemed not to have exercised their Registration Rights under Section 2.1(a). Each Holder's Registration Rights granted pursuant to this Section 2.1 shall expire upon the date on which all of such Holder's Registrable Securities are eligible for sale without registration pursuant to Rule 144 (or any successor provision) under the Securities Act without volume limitations or other restrictions on transfer thereunder, including, without limitation, paragraphs (c), (e), (f) and (h) of Rule 144.

(f) Black-Out Period. Each Holder hereby agrees that it shall not, to the extent requested by the Company or an underwriter of securities of the Company, directly or indirectly sell, offer to sell (including without limitation any short sale), grant any option or otherwise transfer or dispose of any Registrable Securities (other than to donees or affiliates of such

Holder who agree to be similarly bound) within seven (7) days prior to and for up to sixty (60) days, in the event of any subsequent offering, following the effective date of a registration statement of the Company filed under the Securities Act or the date of an underwriting agreement with respect to an underwritten public offering of the Company's securities (the "Black-Out Period"); provided, however, that:

(i) with respect to the Black-Out Period, such agreement shall not be applicable to the Registrable Securities to be sold on such Holder's behalf to the public in an underwritten offering pursuant to such registration statement;

(ii) all executive officers and trustees of the Company then holding Common Shares shall enter into similar agreements;

(iii) the Company shall use commercially reasonable efforts to obtain similar agreements from each 10% or greater shareholder of the Company;

(iv) such Holder shall be allowed any concession or proportionate release allowed to any officer, trustee or other 10% or greater shareholder of the Company that entered into similar agreements; and

(v) no Holder shall be subject to more than two (2) Black-Out Periods in any one (1) calendar year.

In order to enforce the foregoing covenant, the Company shall have the right to place restrictive legends on the certificates representing the Registrable Securities subject to this Section 2.1(f) and to impose stop transfer instructions with respect to the Registrable Securities and such other Common Shares of any Holder (and the Common Shares or securities of every other Person subject to the foregoing restriction) until the end of such period.

2.2 Suspension of Offering.

(a) Notwithstanding Section 2.1 hereof, the Company shall be entitled to postpone the filing of a Registration Statement, and from time to time to require Holders not to sell under a Registration Statement or to suspend the effectiveness thereof, if (i) the Company is actively pursuing an underwritten primary offering of equity securities of the Company, or (ii) the negotiation or consummation of a transaction by the Company or its subsidiaries is pending or an event has occurred, which negotiation, consummation or event would require additional disclosure by the Company in the Registration Statement of material information which the Company has a bona fide business purpose for keeping confidential and the non-disclosure of which in the Registration Statement would be expected, in the Company's reasonable determination, to cause the Registration Statement to fail to comply with applicable disclosure requirements (each such circumstance a "Suspension Event"); provided, however, that the Company may not delay, suspend or withdraw such Registration Statement for more than ninety (90) days at any one time, or more than twice in any twelve (12) month period. Upon receipt of any written notice from the Company of the happening of any Suspension Event during the period the Registration Statement is effective or if as a result of a Suspension Event the Registration Statement or related Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made (in the case of the Prospectus) not misleading, each Holder agrees that (x) it will immediately discontinue offers and sales of the Registrable Securities under such Registration Statement until the Holder receives copies of a supplemental or amended Prospectus (which the Company agrees to promptly prepare) that corrects the misstatement(s) or omission(s) referred to above and receives notice that any post-effective amendment has become effective or unless otherwise notified by the Company that it may resume such offers and sales, and (y) it will maintain the confidentiality of any information included in the written notice delivered by the Company unless otherwise required by law or subpoena. If so directed by the Company, each Holder will deliver to the Company all copies of the Prospectus covering the Registrable Securities current at the time of receipt of such notice, other than permanent file copies then in the possession of such Holder's counsel.

(b) If all reports required to be filed by the Company pursuant to the Exchange Act have not been filed by the required date taking into account any permissible extension, upon written notice thereof by the Company to the Holders, the rights of the Holders to offer, sell or distribute any Registrable Securities pursuant to any Registration Statement or to require the Company take action with respect to the registration or sale of any Registrable Securities pursuant to any Registration Statement shall be suspended until the date on which the Company has filed such reports, and the Company shall notify the Holders in writing as promptly as practicable when such suspension is no longer required.

2.3 Qualification. The Company shall file such documents as necessary to register or qualify the Registrable Securities to be covered by a Registration Statement by the time such Registration Statement is declared effective by the Commission under all applicable state securities or "blue sky" laws of such jurisdictions as any Holder may reasonably request in writing, and shall use commercially reasonable efforts to keep each such registration or qualification effective during the period such Registration Statement is required to be kept effective pursuant to this Agreement or during the period offers or sales are being made by the Holders, whichever is shorter, and to do any and all other similar acts and things which may be reasonably necessary or advisable to enable the Holders to consummate the

disposition of such Registrable Securities in each such jurisdiction; provided, however, that the Company shall not be required to (i) qualify generally to do business in any jurisdiction or to register as a broker or dealer in such jurisdiction where it would not otherwise be required to qualify but for this Agreement, (ii) take any action that would cause it to become subject to any taxation in any jurisdiction where it would not otherwise be subject to such taxation or (iii) take any action that would subject it to the general service of process in any jurisdiction where it is not then so subject.

2.4 Additional Obligations of the Company. When the Company is required to effect the registration of Registrable Securities under the Securities Act pursuant to Section 2.1 of this Agreement, subject to Section 2.2 hereof, the Company shall:

(a) prepare and file with the Commission such amendments and supplements as to the Registration Statement and the Prospectus used in connection therewith as may be necessary (i) to keep such Registration Statement effective and (ii) to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Securities covered by such Registration Statement, in each case for such time as is contemplated in Section 2.1;

(b) furnish, without charge, to the Holders such number of copies of the Registration Statement, each amendment and supplement thereto (in each case including all exhibits), and the Prospectus included in such Registration Statement (including each preliminary Prospectus) in conformity with the requirements of the Securities Act as the Holders may reasonably request in order to facilitate the public sale or other disposition of the Registrable Securities owned by the Holders;

(c) notify the Holders: (i) when the Registration Statement, any pre-effective amendment, the Prospectus or any prospectus supplement related thereto or post-effective amendment to the Registration Statement has been filed, and, with respect to the Registration Statement or any post-effective amendment, when the same has become effective, (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation or threat of any proceedings for that purpose, and (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the securities or "blue sky" laws of any jurisdiction or the initiation of any proceeding for such purpose;

(d) promptly use commercially reasonable efforts to prevent the issuance of any order suspending the effectiveness of a Registration Statement, and, if any such order suspending the effectiveness of a Registration Statement is issued, shall promptly use commercially reasonable efforts to obtain the withdrawal of such order at the earliest possible moment;

(e) following receipt of a Demand Registration Notice and thereafter until the sooner of completion, abandonment or termination of the offering or sale contemplated thereby and the expiration of the period during which the Company is required to maintain the effectiveness of the related Registration Statement, promptly notify the Holders: (i) of the existence of any fact of which the Company is aware or the happening of any event which has resulted in (A) the Registration Statement, as then in effect, containing an untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make any statements therein not misleading or (B) the Prospectus included in such Registration Statement containing an untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make any statements therein, in the light of the circumstances under which they were made, not misleading, and (ii) of the Company's reasonable determination that a post-effective amendment to the Registration Statement would be appropriate or that there exist circumstances not yet disclosed to the public which make further sales under such Registration Statement inadvisable pending such disclosure and post-effective amendment; and, if the notification relates to any event described in either of the clauses (i) or (ii) of this Section 2.4(e), subject to Section

2.2 above, at the request of the Holders, the Company shall prepare and, to the extent the exemption from the prospectus delivery requirements in Rule 172 under the Securities Act is not available, furnish to the Holders a reasonable number of copies of a supplement or post-effective amendment to such Registration Statement or related Prospectus or file any other required document so that (1) such Registration Statement shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (2) as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) use commercially reasonable efforts to cause all such Registrable Securities to be listed on the national securities exchange on which the Common Shares are then listed, if the listing of Registrable Securities is then permitted under the rules of such national securities exchange; and

(g) if requested by any Holder participating in the offering of Registrable Securities, incorporate in a prospectus supplement or post-effective amendment such information concerning the Holder or the intended method of distribution as the Holder reasonably requests to be included therein and is reasonably necessary to permit the sale of the Registrable Securities pursuant to the Registration Statement, including, without limitation, information with respect to the number of Registrable Securities being sold, the purchase price being paid therefor and any other material terms of the offering of the Registrable Securities to be sold in such offering; provided, however, that the Company shall not be obligated to include in any such prospectus supplement or post-effective amendment any requested information that is not required by the rules of the Commission and is unreasonable in scope compared with the Company's most recent prospectus or prospectus supplement used in connection with a primary or secondary offering of equity securities by the Company.

2.5 Obligations of the Holder. In connection with any Registration Statement utilized by the Company to satisfy the Registration Rights pursuant to this Section 2, each Holder agrees to cooperate with the Company in connection with the preparation of the Registration Statement, and each Holder agrees that it will (i) respond within ten (10) Business Days to any written request by the Company to provide or verify information regarding the Holder or the Holder's Registrable Securities (including the proposed manner of sale) that may be required to be included in such Registration Statement and related Prospectus pursuant to the rules and regulations of the Commission, and (ii) provide in a timely manner information regarding the proposed distribution by the Holder of the Registrable Securities and such other information as may be requested by the Company from time to time in connection with the preparation of and for inclusion in the Registration Statement and related Prospectus.

SECTION 3. INDEMNIFICATION; CONTRIBUTION

3.1 Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder and each Person, if any, who controls any Holder within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and any of their partners, members, officers, trustees, employees or representatives, as follows:

(i) against any and all loss, liability, claim, damage, judgment and expense whatsoever, as incurred, arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto) pursuant to which the Registrable Securities were registered under the Securities Act, including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not

misleading or arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (or any amendment or supplement thereto), including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage, judgment and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, if such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever, as incurred (including reasonable fees and disbursements of counsel), reasonably incurred in investigating, preparing or defending against any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, in each case whether or not a party, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under subparagraph (i) or (ii) above;

provided, however, that the indemnity provided pursuant to this Section 3.1 does not apply to any Holder with respect to any loss, liability, claim, damage, judgment or expense to the extent arising out of (A) any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in the Registration Statement (or any amendment thereto) or the Prospectus (or any amendment or supplement thereto), or (B) any Holder's failure to deliver an amended or supplemental Prospectus furnished to such Holder by the Company, if such loss, liability, claim, damage, judgment or expense would not have arisen had such delivery occurred.

3.2 Indemnification by Holder. Each Holder (and each permitted assignee of such Holder, on a several basis) severally and not jointly agrees to indemnify and hold harmless the Company, and each of its trustees and officers (including each trustee and officer of the Company who signed a Registration Statement), each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and each other Holder as follows:

(i) against any and all loss, liability, claim, damage, judgment and expense whatsoever, as incurred, arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto) pursuant to which the Registrable Securities of such Holder were registered under the Securities Act, including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Prospectus (or any amendment or supplement thereto), including all documents incorporated therein by reference, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage, judgment and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such

alleged untrue statement or omission, if such settlement is effected with the written consent of such Holder; and

(iii) against any and all expense whatsoever, as incurred (including reasonable fees and disbursements of counsel), reasonably incurred in investigating, preparing or defending against any litigation, or investigation or proceeding by any governmental agency or body, commenced or threatened, in each case whether or not a party, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under subparagraph (i) or (ii) above;

provided, however, that the indemnity provided pursuant to this Section 3.2 shall only apply with respect to any loss, liability, claim, damage, judgment or expense to the extent arising out of (A) any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use in the Registration Statement (or any amendment thereto) or the Prospectus (or any amendment or supplement thereto) or (B) any Holder's failure to deliver an amended or supplemental Prospectus furnished to the Holder by the Company, if such loss, liability, claim, damage or expense would not have arisen had such delivery occurred. Notwithstanding the provisions of this Section 3.2, a Holder and any permitted assignee shall not be required to indemnify the Company, its officers, trustees or control persons with respect to any amount in excess of the amount of the net proceeds actually received by such Holder or such permitted assignee, as the case may be, from sales of the Registrable Securities of such Holder under the Registration Statement that is the subject of the indemnification claim; and provided further, that the foregoing indemnification shall not apply to a Holder that is a governmental entity unless such Holder is authorized by applicable law to provide such indemnification.

3.3 Conduct of Indemnification Proceedings. An indemnified party hereunder shall give reasonably prompt notice to the indemnifying party of any action or proceeding commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify the indemnifying party (i) shall not relieve the indemnifying party from any liability which it may have under the indemnity agreement provided in Sections 3.1 or 3.2 above, unless and only to the extent it did not otherwise learn of such action and the lack of notice by the indemnified party results in the forfeiture by the indemnifying party of substantial rights and defenses, and (ii) shall not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided under Sections 3.1 or 3.2 above. If the indemnifying party so elects within a reasonable time after receipt of such notice, the indemnifying party may assume the defense of such action or proceeding at such indemnifying party's own expense with counsel chosen by the indemnifying party and approved by the indemnified party, which approval shall not be unreasonably withheld; provided, however, that the indemnifying party will not settle, compromise or consent to the entry of any judgment with respect to any such action or proceeding without the written consent of the indemnified party unless such settlement, compromise or consent secures the unconditional release of the indemnified party of all liability at no cost or expense to the indemnified party; and provided further, that, if the indemnified party reasonably determines that a conflict of interest exists where it is advisable for the indemnified party to be represented by separate counsel or that, upon advice of counsel, there may be legal defenses available to it which are different from or in addition to those available to the indemnifying party, then the indemnifying party shall not be entitled to assume such defense and the indemnified party shall be entitled to separate counsel at the indemnifying party's expense. If the indemnifying party is not entitled to assume the defense of such action or proceeding as a result of the second proviso to the preceding sentence, the indemnifying party's counsel shall be entitled to conduct the indemnifying party's defense and counsel for the indemnified party shall be entitled to conduct the defense of the indemnified party, it being understood that both such counsel will cooperate with each other to conduct the defense of such action or proceeding as efficiently as possible. If the indemnifying party is not so entitled to assume the defense of

such action or does not assume such defense, after having received the notice referred to in the first sentence of this paragraph, the indemnifying party will pay the reasonable fees and expenses of counsel for the indemnified party. In such event, however, the indemnifying party will not be liable for any settlement effected without the written consent of the indemnifying party (which consent will not be unreasonably withheld). If an indemnifying party is entitled to assume, and assumes, the defense of such action or proceeding in accordance with this paragraph, the indemnifying party shall not be liable for any fees and expenses of counsel for the indemnified party incurred thereafter in connection with such action or proceeding.

3.4 Contribution.

(a) In order to provide for just and equitable contribution in circumstances in which the indemnity agreement provided for in Sections 3.1 and 3.2 above is for any reason held to be unenforceable by the indemnified party although applicable in accordance with its terms, the Company and the relevant Holder shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by such indemnity agreement incurred by the Company and the Holder, in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and the Holder on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities, or expenses. The relative fault of the indemnifying party and indemnified party shall be determined by reference to, among other things, whether the action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, the indemnifying party or the indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action.

(b) The parties hereto agree that it would not be just or equitable if contribution pursuant to this Section 3.4 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 3.4, a Holder shall not be required to contribute any amount in excess of the amount of the net proceeds actually received by such Holder from sales of the Registrable Securities of such Holder under the Registration Statement that is the subject of the indemnification claim.

(c) Notwithstanding the foregoing, no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 3.4, each Person, if any, who controls a Holder within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as the Holder, and each trustee of the Company, each officer of the Company who signed a Registration Statement and each Person, if any, who controls the Company within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as the Company.

SECTION 4. EXPENSES

The Company shall pay all expenses incident to the performance by the Company of its registration obligations under Section 2 above, including (i) Commission, stock exchange and FINRA registration and filing fees, (ii) all fees and expenses incurred in complying with securities or "blue sky" laws (including reasonable fees, charges and disbursements of counsel to any underwriter incurred in connection with "blue sky" qualifications of the Registrable Securities as may be set forth in any underwriting agreement), (iii) all printing, messenger and delivery expenses, and (iv) the fees, charges and expenses of counsel to the Company and of its independent public accountants and any other accounting fees, charges and expenses incurred by the Company (including, without limitation, any

expenses arising from any "comfort" letters or any special audits incident to or required by any registration or qualification). Each Holder shall be responsible for the payment of any brokerage and sales commissions, fees and disbursements of such Holder's counsel, accountants and other advisors, and any transfer taxes relating to the sale or disposition of the Registrable Securities by such Holder pursuant to this Agreement.

SECTION 5. RULE 144 COMPLIANCE

The Company covenants that it will use its best efforts to timely file the reports required to be filed by the Company under the Securities Act and the Exchange Act so as to enable the Holders to sell the Registrable Securities pursuant to Rule 144 under the Securities Act. In connection with any sale, transfer or other disposition by a Holder of any Registrable Securities pursuant to Rule 144 under the Securities Act, the Company shall cooperate with the Holder to facilitate the timely preparation and delivery of certificates representing the Registrable Securities to be sold and not bearing any Securities Act legend, and enable certificates for such Registrable Securities to be for such number of shares and registered in such names as such Holder may reasonably request at least five (5) Business Days prior to any sale of Registrable Securities hereunder.

SECTION 6. MISCELLANEOUS

6.1 Integration; Amendment. This Agreement constitutes the entire agreement among the parties hereto with respect to the matters set forth herein and supersedes and renders of no force and effect all prior oral or written agreements, commitments and understandings among the parties with respect to the matters set forth herein. Except as otherwise expressly provided in this Agreement, no amendment, modification or discharge of this Agreement shall be valid or binding unless set forth in writing and duly executed by each of the parties hereto.

6.2 Waivers. No waiver by a party hereto shall be effective unless made in a written instrument duly executed by the party against whom such waiver is sought to be enforced, and only to the extent set forth in such instrument. Neither the waiver by any of the parties hereto of a breach or a default under any of the provisions of this Agreement, nor the failure of any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder shall thereafter be construed as a waiver of any subsequent breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

6.3 Assignment; Successors and Assigns. This Agreement and the rights granted hereunder may not be assigned by a Holder without the written consent of the Company; provided, however, that a Holder may assign its rights and obligations hereunder, without such consent, in connection with a transfer of some or all of such Holder's Registrable Securities (i) to the extent permitted under the Charter and (ii) provided such transferee agrees in writing to be bound by all of the provisions hereof and the Holder provides written notice to the Company within ten (10) days of the effectiveness of such assignment. This Agreement shall inure to the benefit of and be binding upon all of the parties hereto and their respective heirs, executors, personal and legal representatives, successors and permitted assigns, including, without limitation, any successor of the Company by merger, acquisition, reorganization, recapitalization or otherwise.

6.4 Notices. All notices called for under this Agreement shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, (b) on the first Business Day following the date of dispatch if delivered by a nationally recognized next-day courier service, (c) on the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid, or (d) if sent by facsimile transmission during business hours on a Business

Day, when transmitted and receipt is confirmed, or otherwise on the following Business Day. All notices hereunder shall be delivered to the parties at the addresses set forth opposite their signatures below, or to any other address or addressee as any party entitled to receive notice under this Agreement shall designate, from time to time, to others in the manner provided in this Section 6.4 for the service of notices; provided, however, that notices of a change of address shall be effective only upon receipt thereof.

6.5 Specific Performance. The parties hereto acknowledge that the obligations undertaken by them hereunder are unique and that there would be no adequate remedy at law if any party fails to perform any of its obligations hereunder, and accordingly agree that each party, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to (i) compel specific performance of the obligations, covenants and agreements of any other party under this Agreement in accordance with the terms and conditions of this Agreement and (ii) obtain preliminary injunctive relief to secure specific performance and to prevent a breach or contemplated breach of this Agreement in any court of the United States or any State thereof having jurisdiction.

6.6 Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Maryland (excluding the conflict of law provisions thereof).

6.7 Headings. Section and subsection headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

6.8 Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the person or entity may require.

6.9 Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one and the same agreement. This Agreement may be executed by facsimile signatures.

6.10 Severability. If fulfillment of any provision of this Agreement, at the time such fulfillment shall be due, shall transcend the limit of validity prescribed by law, then the obligation to be fulfilled shall be reduced to the limit of such validity; and if any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

6.11 No Third Party Beneficiaries. Except as may be expressly provided herein (including without limitation Section 3 hereof), it is the explicit intention of the parties hereto that no person or entity other than the parties hereto is or shall be entitled to bring any action to enforce any provision of this Agreement against any of the parties hereto, and the covenants, undertakings and agreements set forth in this Agreement shall be solely for the benefit of, and shall be enforceable only by, the parties hereto or their respective successors, heirs, executors, administrators, legal representatives and permitted assigns.

6.12 Legend Removal. The Company, upon the request of any Holder of Registrable Securities, shall use its commercially reasonable efforts to remove any legend from the certificates representing such Registrable Securities with respect to the Securities Act and any state securities laws, and shall cause the termination of any related stop transfer orders, if (a) such Registrable Securities are eligible for sale without registration pursuant to Rule 144 (or any successor provision) under the Securities Act without any volume limitations or other restrictions on transfer under paragraphs (c), (e), (f) and (h) of Rule 144 and (b) such Holder provides the Company with a representation letter in customary form reasonably sufficient to establish that such limitations and restrictions under paragraphs (c), (e), (f)

and (h) of Rule 144 do not apply to such Registrable Securities. Such Holder further agrees to indemnify the Company against any loss, cost or expenses, including reasonable expenses and attorney's fees, incurred as a result of such legend removal on such Holder's behalf; provided, however, that the foregoing indemnification shall not apply to a Holder that is a governmental entity unless such Holder is authorized by applicable law to provide such indemnification.

6.13 Termination on Outside Date. If the IPO Transactions are not completed on or before the Outside Date, then this agreement shall terminate automatically on the Outside Date, and each of the Company and the undersigned shall be released from all obligations under this Agreement.

6.14 Initial Holders that are Governmental Entities. Each Initial Holder that is an entity of a state, including, without limitation, a public pension plan, has advised the Company that some of such Initial Holder's obligations under this Agreement and the agreements and transactions contemplated hereby may be limited by, and the Company agrees that, such Initial Holder's obligations hereunder and thereunder are made subject to, the laws of such state, including without limitation, principles of sovereign immunity. Notwithstanding Section 6.6, this Section 6.14 and any provision in this Agreement modified by the Section 6.14, shall be governed with respect to such Initial Holder by the laws of the state under which such Initial Holder was created.

[Signatures on following page]

IN WITNESS WHEREOF, each of the undersigned has caused this Agreement to be duly executed and delivered in its name and on its behalf as of the date first written above.

Address:

3 Bethesda Metro Center, Suite 1000
Bethesda, MD 20814

THE COMPANY:

RLJ LODGING TRUST, a Maryland real estate investment trust

By: _____
Name: Thomas J. Baltimore, Jr.
Title: President and Chief Executive Officer

Address:

INITIAL HOLDERS:

By: _____
Name:
Title:

Schedule I

Initial Holders	Common Shares

RLJ LODGING TRUST

2011 EQUITY INCENTIVE PLAN

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RLJ LODGING TRUST

2011 EQUITY INCENTIVE PLAN

RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), sets forth herein the terms of its 2011 Equity Incentive Plan (the "Plan"), as follows:

1. PURPOSE

The Plan is intended to (a) provide incentive to officers, employees, trustees and other eligible persons to stimulate their efforts towards the success of the Company and to operate and manage its business in a manner that will provide for the long term growth and profitability of the Company; and (b) provide a means of obtaining, rewarding and retaining key personnel. To this end, the Plan provides for the grant of share options, share appreciation rights, restricted shares, unrestricted shares, share units (including deferred share units), dividend equivalent rights, long-term incentive units, other equity-based awards and cash bonus awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of annual or long-term performance goals in accordance with the terms hereof. Shares options granted under the Plan may be non-qualified share options or incentive share options, as provided herein.

2. DEFINITIONS

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

2.1 **"Affiliate"** means, with respect to the Company, any company or other trade or business that controls, is controlled by or is under common control with the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including, without limitation, any Subsidiary. For purposes of granting Options or Share Appreciation Rights, an entity may not be considered an Affiliate of the Company unless the Company holds a "controlling interest" in such entity, where the term "controlling interest" has the same meaning as provided in Treasury Regulation Section 1.414(c)-2(b)(2)(i), provided that the language "at least 50 percent" is used instead of "at least 80 percent" and, provided further, that where granting of Options or Share Appreciation Rights is based upon a legitimate business criteria, the language "at least 20 percent" is used instead of "at least 80 percent" each place it appears in Treasury Regulation Section 1.414(c)-2(b)(2)(i).

2.2 **"Annual Incentive Award"** means an Award, denominated in cash, made subject to attainment of performance goals (as described in **Section 14**) over a Performance Period of up to one (1) year (which shall correspond to the Company's fiscal year, unless otherwise specified by the Board).

2.3 **"Applicable Laws"** means the legal requirements relating to the Plan and the Awards under applicable provisions of the corporate, securities, tax and other laws, rules,

regulations and government orders, and the rules of any applicable stock exchange or national market system, of any jurisdiction applicable to Awards granted to residents therein.

2.4 **"Award"** means a grant of an Option, Share Appreciation Right, Restricted Shares, Unrestricted Shares, Share Units, Dividend Equivalent Right, Performance Award, Annual Incentive Award, LTIP Unit, or Other Equity-Based Award under the Plan.

2.5 **"Award Agreement"** means the agreement between the Company and a Grantee that evidences and sets out the terms and conditions of an Award.

2.6 **"Benefit Arrangement"** shall have the meaning set forth in **Section 16**.

2.7 **"Board"** means the Board of Trustees of the Company.

2.8 **"Cause"** means, as determined by the Board and unless otherwise provided in an applicable agreement with the Company or an Affiliate, (i) gross negligence or willful misconduct in connection with the performance of duties; (ii) conviction of a felony; (iii) conviction of any other criminal offense involving an act of dishonesty intended to result in substantial personal enrichment of such Grantee at the expense of the Company or an Affiliate; or (iv) material breach of any term of any employment, consulting or other services, confidentiality, intellectual property or non-competition agreements, if any, between the Service Provider and the Company or an Affiliate.

2.9 "**Change in Control**" means:

(1) Any "person" as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company or any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportion as their ownership of stock of the Company), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding voting securities;

(2) During any period of twelve consecutive months, individuals who at the beginning of such period constitute the Board, and any new trustee (other than a trustee designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (1), (3) or (4) hereof) whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the trustees then still in office who either were trustees at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees or actual threatened solicitation of proxies or consents by or on behalf of a person other than the Board;

(3) The shareholders of the Company approve a merger or consolidation of the Company with any other entity or approve the issuance of voting securities in connection with a merger or consolidation of the Company (or any direct or indirect subsidiary thereof) pursuant to applicable exchange requirements, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving or parent entity) at least 50.1% of the combined voting power of the voting securities of the Company or such surviving or parent entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as defined above) is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing 50% or more of either of the then outstanding shares of Common Shares or the combined voting power of the Company's then outstanding voting securities; or

(4) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets (or any transaction or series of transactions within a period of twelve months ending on the date of the last sale or disposition having a similar effect).

Notwithstanding anything herein to the contrary, the determination as to whether a "Change in Control" as defined herein has occurred shall be determined in accordance with the requirements of Code Section 409A and shall be intended to constitute a "change in control event" within the meaning of Code Section 409A, except to that the extent the provisions herein are more restrictive than the requirements of Code Section 409A.

2.10 **"Code"** means the Internal Revenue Code of 1986, as now in effect or as hereafter amended.

2.11 **"Committee"** means a committee of, and designated from time to time by resolution of, the Board, which shall be constituted as provided in **Section 3.2** (or, if no Committee has been designated, the Board itself).

2.12 **"Company"** means RLJ Lodging Trust, a Maryland real estate investment trust.

2.13 **"Covered Employee"** means a Grantee who is a covered employee within the meaning of Code Section 162(m)(3).

2.14 **"Determination Date"** means the Grant Date or such other date as of which the Fair Market Value of a Share is required to be established for purposes of the Plan.

2.15 **"Disability"** means the Grantee is unable to perform each of the essential duties of such Grantee's position by reason of a medically determinable physical or mental impairment which is potentially permanent in character or which can be expected to last for a continuous period of not less than 12 months; provided, however, that, with respect to rules regarding expiration of an Incentive Share Option following termination of the Grantee's Service, Disability shall mean the Grantee is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to

result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

2.16 **"Dividend Equivalent Right"** means a right, granted to a Grantee under **Section 13**, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

2.17 **"Effective Date"** means **[ ]**, 2011, the date the Plan was approved by the shareholders of the Company.

2.18 **"Exchange Act"** means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.

2.19 **"Fair Market Value"** means the fair market value of a Share for purposes of the Plan, which shall be determined as of any Determination Date as follows:

(a) If on such Determination Date the Shares are listed on a Stock Exchange, or are publicly traded on another established securities market (a "Securities Market"), the Fair Market Value of a Share shall be the closing price of the Share as reported on such Stock Exchange or such Securities Market (*provided* that, if there is more than one such Stock Exchange or Securities Market, the Committee shall designate the appropriate Stock Exchange or Securities Market for purposes of the Fair Market Value determination). If there is no such reported closing price on such Determination Date, the Fair Market Value of a Share shall be the closing price of the Share on the next trading day on which any sale of Shares shall have been reported on such Stock Exchange or such Securities Market.

(b) If on such Determination Date the Shares are not listed on a Stock Exchange or publicly traded on a Securities Market, the Fair Market Value of a Share shall be the value of the Share as determined by the Committee by the reasonable application of a reasonable valuation method, in a manner consistent with Code Section 409A.

Notwithstanding this **Section 2.19** or **Section 19.3,** for purposes of determining taxable income and the amount of the related tax withholding obligation pursuant to **Section 19.3**, for any Shares subject to an Award that are sold by or on behalf of a Grantee on the same date on which such Shares may first be sold pursuant to the terms of the related Award Agreement, the Fair Market Value of such Shares shall be the sale price of such Shares on such date (or if sales of such Shares are effectuated at more than one sale price, the weighted average sale price of such Shares on such date).

2.20 **"Family Member"** means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of the Grantee, any person sharing the Grantee's household (other than a tenant or employee), a trust in which any one or more of these persons have more than fifty percent (50%) of the beneficial interest, a foundation in which any one or more of these persons (or the

Grantee) control the management of assets, and any other entity in which one or more of these persons (or the Grantee) own more than fifty percent (50%) of the voting interests.

2.21 **"Grant Date"** means, as determined by the Board, the latest to occur of (i) the date as of which the Company completes the action constituting the Award, (ii) the date on which the recipient of an Award first becomes eligible to receive an Award under **Section 6**, or (iii) such other date as may be specified by the Board.

2.22 **"Grantee"** means a person who receives or holds an Award under the Plan.

2.23 **"Incentive Share Option"** means an "incentive stock option" within the meaning of Code Section 422, or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.

2.24 **"Initial Public Offering"** or **"IPO"** means the initial firm commitment underwritten registered public offering by the Company of the Shares.

2.25 **"IPO Effective Date"** means the date the Shares become available for sale in an IPO.

2.26 **"Long-Term Incentive Unit"** or **"LTIP Unit"** means an Award under **Section 15** of an interest in the operating partnership affiliated with the Company.

2.27 **"Non-qualified Share Option"** means an Option that is not an Incentive Share Option.

2.28 **"Option"** means an option to purchase one or more Shares pursuant to the Plan.

2.29 **"Option Price"** means the exercise price for each Share subject to an Option.

2.30 **"Other Agreement"** shall have the meaning set forth in **Section 16**.

2.31 **"Other Equity-Based Award"** means a right or other interest that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, other than an Option, Share Appreciation Right, Restricted Share, Unrestricted Share, Share Unit, Dividend Equivalent Right, Performance Award or Annual Incentive Award.

2.32 **"Outside Trustee"** means a member of the Board who is not an officer or employee of the Company.

2.33 **"Performance Award"** means an Award made subject to the attainment of performance goals (as described in **Section 14**) over a Performance Period of up to ten (10) years.

2.34 **"Performance-Based Compensation"** means compensation under an Award that is intended to satisfy the requirements of Code Section 162(m) for "qualified performance-based compensation" paid to Covered Employees. Notwithstanding the foregoing, nothing in the Plan shall be construed to mean that an Award which does not satisfy the requirements for "qualified

performance-based compensation" under Code Section 162(m) does not constitute performance-based compensation for other purposes, including for purposes of Code Section 409A.

2.35 **"Performance Measures"** means measures as described in **Section 14** on which the performance goals are based and which have been approved by the Company's shareholders pursuant to the Plan in order to qualify Awards as Performance-Based Compensation.

2.36 **"Performance Period"** means the period of time during which the performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.

2.37 **"Plan"** means this RLJ Lodging Trust 2011 Equity Incentive Plan, as amended from time to time.

2.38 **"Purchase Price"** means the purchase price for each Share pursuant to a grant of Restricted Shares, Share Units or Unrestricted Shares.

2.39 **"Reporting Person"** means a person who is required to file reports under Section 16(a) of the Exchange Act.

2.40 **"Restricted Shares"** means Shares, awarded to a Grantee pursuant to **Section 10**.

2.41 **"SAR Exercise Price"** means the per share exercise price of a SAR granted to a Grantee under **Section 9**.

2.42 **"Securities Act"** means the Securities Act of 1933, as now in effect or as hereafter amended.

2.43 **"Service"** means service as a Service Provider to the Company or any Affiliate. Unless otherwise stated in the applicable Award Agreement, a Grantee's change in position or duties shall not result in interrupted or terminated Service, so long as such Grantee continues to be a Service Provider to the Company or any Affiliate. Subject to the preceding sentence, whether a termination of Service shall have occurred for purposes of the Plan shall be determined by the Board, which determination shall be final, binding and conclusive. Notwithstanding any other provision to the contrary, for any individual providing services solely as a trustee, only service to the Company or any of its Subsidiaries constitutes Service. If the Service Provider's employment or other service relationship is with an Affiliate and that entity ceases to be an Affiliate, a termination of Service shall be deemed to have occurred when the entity ceases to be an Affiliate unless the Service Provider transfers his or her employment or other service relationship to the Company or its remaining Affiliates.

2.44 **"Service Provider"** means an employee, officer, trustee, or a consultant or adviser (who is a natural person) providing services to the Company or any of its Affiliates.

2.45 **"Shares"** means the common shares of beneficial interest, par value $.01 per share, of the Company.

2.46 **"Share Appreciation Right"** or **"SAR"** means a right granted to a Grantee under **Section 9**.

2.47 **"Share Units"** means a bookkeeping entry representing the equivalent of one Share awarded to a Grantee pursuant to **Section 10**.

2.48 **"Stock Exchange"** means the New York Stock Exchange or another established national or regional stock exchange.

2.49 **"Subsidiary"** means any "subsidiary corporation" of the Company within the meaning of Code Section 424(f).

2.50 **"Substitute Award"** means an Award granted upon assumption of, or in substitution for, outstanding awards previously granted by a company or other entity acquired by the Company or an Affiliate or with which the Company or an Affiliate combines.

2.51 **"Ten Percent Shareholder"** means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding voting securities of the Company, its parent or any of its Subsidiaries. In determining Share ownership, the attribution rules of Code Section 424(d) shall be applied.

2.52 **"Unrestricted Shares"** shall have the meaning set forth in **Section 11**.

Unless the context otherwise requires, all references in the Plan to "including" shall mean "including without limitation."

References in the Plan to any Code Section shall be deemed to include, as applicable, regulations promulgated under such Code Section.

3. ADMINISTRATION OF THE PLAN

3.1. Board.

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company's certificate of incorporation and by-laws and Applicable Laws. The Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Award or any Award Agreement, and shall

have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan, any Award or any Award Agreement. All such actions and determinations shall be by the affirmative vote of a majority of the members of the Board present at a meeting at which a quorum is present or by unanimous consent of the Board executed in writing in accordance with the Company's certificate of incorporation and by-laws and Applicable Laws. The interpretation and construction by the Board of any provision of the Plan, any Award or any Award Agreement shall be final, binding and conclusive.

3.2. Committee.

The Board from time to time may delegate to the Committee such powers and authorities related to the administration and implementation of the Plan, as set forth in **Section 3.1** above and other applicable provisions, as the Board shall determine, consistent with the Company's certificate of incorporation and by-laws and Applicable Laws.

(i) Except as provided in Subsection (ii) and except as the Board may otherwise determine, the Committee, if any, appointed by the Board to administer the Plan shall consist of two or more Outside Trustees of the Company who: (a) qualify as "outside directors" within the meaning of Section 162(m) of the Code and who (b) meet such other requirements as may be established from time to time by the Securities and Exchange Commission for plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act and who (c) comply with the independence requirements of the Stock Exchange on which the Shares are listed.

(ii) The Board may also appoint one or more separate committees of the Board, each composed of one or more trustees of the Company who need not be Outside Trustees, who may administer the Plan with respect to employees or other Service Providers who are not executive officers (as defined under Rule 3b-7 or the Exchange Act) or trustees of the Company, may grant Awards under the Plan to such employees or other Service Providers, and may determine all terms of such Awards, subject to the requirements of Code Section 162(m), Rule 16b-3 and the rules of the Stock Exchange on which the Shares are listed.

In the event that the Plan, any Award or any Award Agreement entered into hereunder provides for any action to be taken by or determination to be made by the Board, such action may be taken or such determination may be made by a Committee if the power and authority to do so has been delegated (and such delegated authority has not been revoked) to such Committee by the Board as provided for in this Section. Unless otherwise expressly determined by the Board, any such action or determination by the Committee shall be final, binding and conclusive. To the extent permitted by law, the Committee may delegate its authority under the Plan to a member of the Board, provided, that such member of the Board to whom the Committee delegates authority under the Plan must be an Outside Trustee who satisfies the requirements of Subsection (i)(a)-(c) of this Section 3.2.

3.3. Terms of Awards.

Subject to the other terms and conditions of the Plan, the Board shall have full and final authority to:

(i) designate Grantees;

(ii) determine the type or types of Awards to be made to a Grantee;

(iii) determine the number of Shares to be subject to an Award;

(iv) establish the terms and conditions of each Award (including, but not limited to, the exercise price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an Award or the Shares subject thereto, the treatment of an Award in the event of a Change in Control, and any terms or conditions that may be necessary to qualify Options as Incentive Share Options);

(v) prescribe the form of each Award Agreement evidencing an Award; and

(vi) amend, modify, or reprice (except as such practice is prohibited by **Section 3.5** herein) the terms of any outstanding Award. Such authority specifically includes the authority, in order to effectuate the purposes of the Plan but without amending the Plan, to make or modify Awards to eligible individuals who are foreign nationals or are individuals who are employed outside the United States to recognize differences in local law, tax policy, or custom. Notwithstanding the foregoing, no amendment, modification or supplement of any Award shall, without the consent of the Grantee, impair the Grantee's rights under such Award.

3.4. Forfeiture; Recoupment.

The Company may reserve the right in an Award Agreement to cause a forfeiture of the gain realized by a Grantee with respect to an Award thereunder on account of actions taken by, or failed to be taken by, such Grantee in violation or breach of or in conflict with any (a) employment agreement, (b) non-competition agreement, (c) agreement prohibiting solicitation of employees or clients of the Company or any Affiliate, (d) confidentiality obligation with respect to the Company or any Affiliate, or (e) other agreement, as and to the extent specified in such Award Agreement. The Company may annul an outstanding Award if the Grantee thereof is an employee and is terminated for Cause as defined in the Plan or the applicable Award Agreement or for "cause" as defined in any other agreement between the Company or any Affiliate and such Grantee, as applicable.

Any Award granted pursuant to the Plan is subject to mandatory repayment by the Grantee to the Company to the extent the Grantee is or in the future becomes subject to any Company "clawback" or recoupment policy that requires the repayment by the Grantee to the Company of compensation paid by the Company to the Grantee in the event that the Grantee fails to comply with, or violates, the terms or requirements of such policy. Such policy may authorize the Company to recover from a Grantee incentive-based compensation (including Options awarded as compensation) awarded to or received by such Grantee during a period of up to three (3) years, as determined by the Committee, preceding the date on which the Company is required to prepare an accounting restatement due to material noncompliance by the Company, as a result of misconduct, with any financial reporting requirement under the federal securities laws.

Furthermore, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the federal securities laws, and any Award Agreement so provides, any Grantee of an Award under such Award Agreement who knowingly engaged in such misconduct, was grossly negligent in engaging in such misconduct, knowingly failed to prevent such misconduct or was grossly negligent in failing to prevent such misconduct, shall reimburse the

Company the amount of any payment in settlement of an Award earned or accrued during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document that contained information affected by such material noncompliance.

Notwithstanding any other provision of the Plan or any provision of any Award Agreement, if the Company is required to prepare an accounting restatement, then Grantees shall forfeit any cash or Shares received in connection with an Award (or an amount equal to the Fair Market Value of such Shares on the date of delivery if the Grantee no longer holds the Shares) if pursuant to the terms of the Award Agreement for such Award, the amount of the Award earned or the vesting in the Award was explicitly based on the achievement of pre-established performance goals set forth in the Award Agreement (including earnings, gains, or other performance goals) that are later determined, as a result of the accounting restatement, not to have been achieved.

3.5. No Repricing.

Except in connection with a corporate transaction involving the Company (including, without limitation, any share dividend, distribution (whether in the form of cash, shares, other securities or other property), share split, extraordinary cash dividend, recapitalization, change in control, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities or similar transaction), the Company may not, without obtaining shareholder approval: (a) amend the terms of outstanding Options or SARs to reduce the

exercise price of such outstanding Options or SARs; (b) cancel outstanding Options or SARs in exchange for or substitution of Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs; or (c) cancel outstanding Options or SARs with an exercise price above the current share price in exchange for cash or other securities.

3.6. Deferral Arrangement.

The Board may permit or require the deferral of any award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest or Dividend Equivalent Rights and, in connection therewith, provisions for converting such credits into Share Units and for restricting deferrals to comply with hardship distribution rules affecting tax-qualified retirement plans subject to Code Section 401(k)(2)(B)(IV), *provided* that no Dividend Equivalent Rights may be granted in connection with, or related to, an Award of Options or SARs. Any such deferrals shall be made in a manner that complies with Code Section 409A.

3.7. No Liability.

No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award or Award Agreement.

3.8. Share Issuance/Book-Entry.

Notwithstanding any provision of the Plan to the contrary, the issuance of the Shares under

the Plan may be evidenced in such a manner as the Board, in its discretion, deems appropriate, including, without limitation, book-entry or direct registration or issuance of one or more share certificates.

4. SHARES SUBJECT TO THE PLAN

4.1. Number of Shares Available for Awards.

Subject to adjustment as provided in **Section 18**, the number of Shares available for issuance under the Plan shall be **[ ]**. Subject to adjustment as provided in **Section 18**, the number of Shares available for issuance as Incentive Share Options shall be **[ ]**. Shares issued or to be issued under the Plan shall be authorized but unissued shares or treasury Shares or any combination of the foregoing, as may be determined from time to time by the Board or by the Committee.

4.2. Adjustments in Authorized Shares.

The Board shall have the right to substitute or assume Awards in connection with mergers, reorganizations, separations, or other transactions to which Code Section 424(a) applies. The number of Shares reserved pursuant to **Section 4** shall be increased by the corresponding number of awards assumed and, in the case of a substitution, by the net increase in the number of Shares subject to awards before and after the substitution. Available shares under a shareholder approved plan of an acquired company (as appropriately adjusted to reflect the transaction) may be used for Awards under the Plan and do not reduce the number of Shares available under the Plan, subject to requirements of the Stock Exchange on which the Shares are listed.

4.3. Share Usage.

Shares covered by an Award shall be counted as used as of the Grant Date. Any Shares that are subject to Awards shall be counted against the limit set forth in **Section 4.1** as one (1) Share for every one (1) Share subject to an Award. With respect to SARs, the number of Shares subject to an award of SARs will be counted against the aggregate number of Shares available for issuance under the Plan regardless of the number of Shares actually issued to settle the SAR upon exercise. If any Shares covered by an Award granted under the Plan are not purchased or are forfeited or expire, or if an Award otherwise terminates without delivery of any Shares subject thereto, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award shall, to the extent of any such forfeiture, termination or expiration, again be available for making Awards under the Plan in the same amount as such Shares were counted against the limit set forth in **Section 4.1**. The number of Shares available for issuance under the Plan shall not be increased by (i) any Shares tendered or withheld or Award surrendered in connection with the purchase of Shares upon exercise of an Option as described in **Section 12.2**, (ii) any Shares deducted or delivered from an Award payment in connection with the Company's tax withholding obligations as described in **Section 19.3** or (iii) any Shares purchased by the Company with proceeds from option exercises.

5. EFFECTIVE DATE, DURATION AND AMENDMENTS

5.1. Effective Date.

The Plan shall be effective as of the Effective Date.

5.2. Term.

The Plan does not have a term but may be terminated on any date as provided in **Section 5.3**.

5.3. Amendment and Termination of the Plan.

The Board may, at any time and from time to time, amend, suspend, or terminate the Plan as to any Shares as to which Awards have not been made. An amendment shall be contingent on approval of the Company's shareholders to the extent stated by the Board, required by Applicable Laws or required by the Stock Exchange on which the Shares are listed. No amendment will be made to the no-repricing provisions of **Section 3.5** or the option pricing provisions of **Section 8.1** without the approval of the Company's shareholders. No amendment, suspension, or termination of the Plan shall, without the consent of the Grantee, impair rights or obligations under any Award theretofore awarded under the Plan.

6. AWARD ELIGIBILITY AND LIMITATIONS

6.1. Service Providers and Other Persons.

Subject to this **Section 6**, Awards may be made under the Plan to: (i) any Service Provider, as the Board shall determine and designate from time to time and (ii) any other individual whose participation in the Plan is determined to be in the best interests of the Company by the Board.

6.2. Limitation on Shares Subject to Awards and Cash Awards.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act and the transition period under Treasury Regulation Section 1.162-27(f)(2) has lapsed or does not apply:

(i) the maximum number of Shares subject to Options or SARs that can be granted under the Plan to any person eligible for an Award under **Section 6** is One Million (1,000,000) Shares in a calendar year;

(ii) the maximum number of Shares that can be granted under the Plan, other than pursuant to an Option or SARs, to any person eligible for an Award under **Section 6** is One Million (1,000,000) Shares in a calendar year; and

(iii) the maximum amount that may be paid as an Annual Incentive Award in a calendar year to any person eligible for an Award shall be Five Million Dollars ($5,000,000) and the maximum amount that may be paid as a cash-settled Performance Award in respect of a

performance period by any person eligible for an Award shall be Five Million Dollars ($5,000,000).

The preceding limitations in this **Section 6.2** are subject to adjustment as provided in **Section 18**.

6.3. Stand-Alone, Additional, Tandem and Substitute Awards.

Subject to **Section 3.5**, Awards granted under the Plan may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Affiliate, or any business entity to be acquired by the Company or an Affiliate, or any other right of a Grantee to receive payment from the Company or any Affiliate. Such additional, tandem, and substitute or exchange Awards may be granted at any time. Subject to **Section 3.5**, if an Award is granted in substitution or exchange for another Award, the Board shall require the surrender of such other Award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Affiliate. Notwithstanding **Section 8.1** and **Section 9.1** but subject to **Section 3.5**, the Option Price of an Option or the grant price of an SAR that is a Substitute Award may be less than 100% of the Fair Market Value of a Share on the original date of grant; provided, that, the Option Price or grant price is determined in accordance with the principles of Code Section 424 and the regulations thereunder for any Incentive Share Option and consistent with Code Section 409A for any other Option or SAR.

7. AWARD AGREEMENT

Each Award granted pursuant to the Plan shall be evidenced by an Award Agreement, in such form or forms as the Board shall from time to time determine. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Non-qualified Share Options or Incentive Share Options, and in the absence of such specification such options shall be deemed Non-qualified Share Options.

8. TERMS AND CONDITIONS OF OPTIONS

8.1. Option Price.

The Option Price of each Option shall be fixed by the Board and stated in the Award Agreement evidencing such Option. Except in the case of Substitute Awards, the Option Price of each Option shall be at least the Fair Market Value of a Share on the Grant Date; provided, however, that in the event that a Grantee is a Ten Percent Shareholder, the Option Price of an Option granted to such Grantee that is intended to be an Incentive Share Option shall be not less than one hundred ten percent (110%) of the Fair Market Value of a Share on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a Share.

8.2. Vesting.

Subject to **Sections 8.3 and 18.3**, each Option granted under the Plan shall become exercisable at such times and under such conditions as shall be determined by the Board and stated in the Award Agreement. For purposes of this **Section 8.2**, fractional numbers of Shares subject to an Option shall be rounded down to the next nearest whole number.

8.3. Term.

Each Option granted under the Plan shall terminate, and all rights to purchase Shares thereunder shall cease, upon the expiration of ten (10) years from the date such Option is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the Award Agreement relating to such Option; provided, however, that in the event that the Grantee is a Ten Percent Shareholder, an Option granted to such Grantee that is intended to be an Incentive Share Option shall not be exercisable after the expiration of five (5) years from its Grant Date.

8.4. Termination of Service.

Each Award Agreement shall set forth the extent to which the Grantee shall have the right to exercise the Option following termination of the Grantee's Service. Such provisions shall be determined in the sole discretion of the Board, need not be uniform among all Options issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination of Service.

8.5. Limitations on Exercise of Option.

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, prior to the date the Plan is approved by the shareholders of the Company as provided herein or after the occurrence of an event referred to in **Section 18** which results in termination of the Option.

8.6. Method of Exercise.

Subject to the terms of **Section 12** and **Section 19.3**, an Option that is exercisable may be exercised by the Grantee's delivery to the Company of notice of exercise on any business day, at the Company's principal office, on the form specified by the Company and in accordance with any additional procedures specified by the Board. Such notice shall specify the number of Shares with respect to which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the Shares for which the Option is being exercised plus the amount (if any) of federal and/or other taxes which the Company may, in its judgment, be required to withhold with respect to an Award.

8.7. Rights of Holders of Options.

Unless otherwise stated in the applicable Award Agreement, an individual or entity holding or exercising an Option shall have none of the rights of a shareholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject Shares or to direct the

voting of the subject Shares or to receive notice of any meeting of the Company's shareholders) until the Shares covered thereby are fully paid and issued to him. Except as provided in **Section 18**, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

8.8. Delivery of Share Certificates.

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price with respect thereto, such Grantee shall be entitled to receive such evidence of such Grantee's ownership of the Shares subject to such Option as shall be consistent with **Section 3.8**.

8.9. Transferability of Options.

Except as provided in **Section 8.10**, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's guardian or legal representative) may exercise an Option. Except as provided in **Section 8.10**, no Option shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

8.10. Family Transfers.

If authorized in the applicable Award Agreement or by the Board, in its sole discretion, a Grantee may transfer, not for value, all or part of an Option which is not an Incentive Share Option to any Family Member. For the purpose of this **Section 8.10**, a "not for value" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) unless Applicable Law does not permit such transfers, a transfer to an entity in which more than fifty percent (50%) of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this **Section 8.10**, any such Option shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and Shares acquired pursuant to the Option shall be subject to the same restrictions on transfer of shares as would have applied to the Grantee. Subsequent transfers of transferred Options are prohibited except to Family Members of the original Grantee in accordance with this **Section 8.10** or by will or the laws of descent and distribution. The events of termination of Service of **Section 8.4** shall continue to be applied with respect to the original Grantee, following which the Option shall be exercisable by the transferee only to the extent, and for the periods specified, in **Section 8.4**.

8.11. Limitations on Incentive Share Options.

An Option shall constitute an Incentive Share Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the Shares with respect to which all Incentive Share Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its Affiliates) does not exceed $100,000. Except to the extent provided in the regulations under Code Section 422,

this limitation shall be applied by taking Options into account in the order in which they were granted.

8.12. Notice of Disqualifying Disposition.

If any Grantee shall make any disposition of Shares issued pursuant to the exercise of an Incentive Share Option under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Grantee shall notify the Company of such disposition within ten (10) days thereof.

9. TERMS AND CONDITIONS OF SHARE APPRECIATION RIGHTS

9.1. Right to Payment and Grant Price.

A SAR shall confer on the Grantee to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the SAR Exercise Price as determined by the Board. The Award Agreement for a SAR shall specify the SAR Exercise Price, which shall be at least the Fair Market Value of one (1) Share on the Grant Date. SARs may be granted in conjunction with all or part of an Option granted under the Plan or at any subsequent time during the term of such Option, in conjunction with all or part of any other Award or without regard to any Option or other Award; provided that a SAR that is granted subsequent to the Grant Date of a related Option must have a SAR Exercise Price that is no less than the Fair Market Value of one Share on the SAR Grant Date; and *provided further* that a Grantee may only exercise either the SAR or the Option with which it is granted in tandem and not both.

9.2. Other Terms.

The Board shall determine on the Grant Date or thereafter, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which SARs shall cease to be or become exercisable following termination of Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Grantees, whether or not a SAR shall be in tandem or in combination with any other Award, and any other terms and conditions of any SAR.

9.3. Term.

Each SAR granted under the Plan shall terminate, and all rights thereunder shall cease, upon the expiration of ten (10) years from the date such SAR is granted, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the Award Agreement relating to such SAR.

9.4. Transferability of SARS.

Except as provided in **Section 9.5**, during the lifetime of a Grantee, only the Grantee (or, in the event of legal incapacity or incompetency, the Grantee's guardian or legal representative)

may exercise a SAR. Except as provided in **Section 9.5**, no SAR shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution.

9.5. Family Transfers.

If authorized in the applicable Award Agreement and by the Board, in its sole discretion, a Grantee may transfer, not for value, all or part of a SAR to any Family Member. For the purpose of this **Section 9.5**, a "not for value" transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) unless Applicable Law does not permit such transfers, a transfer to an entity in which more than fifty percent (50%) of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this **Section 9.5**, any such SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and Shares acquired pursuant to a SAR shall be subject to the same restrictions on transfer or shares as would have applied to the Grantee. Subsequent transfers of transferred SARs are prohibited except to Family Members of the original Grantee in accordance with this **Section 9.5** or by will or the laws of descent and distribution.

10. TERMS AND CONDITIONS OF RESTRICTED SHARES AND SHARE UNITS

10.1. Grant of Restricted Shares or Share Units.

Awards of Restricted Shares or Share Units may be made for consideration or no consideration (other than the par value of the Shares which shall be deemed paid by past Service or, if so provided in the related Award Agreement or a separate agreement, the promise by the Grantee to perform future Service to the Company or an Affiliate of the Company).

10.2. Restrictions.

At the time a grant of Restricted Shares or Share Units is made, the Board may, in its sole discretion, establish a period of time (a "restricted period") applicable to such Restricted Shares or Share Units. Each Award of Restricted Shares or Share Units may be subject to a different restricted period. The Board may in its sole discretion, at the time a grant of Restricted Shares or Share Units is made, prescribe restrictions in addition to or other than the expiration of the restricted period, including the satisfaction of corporate or individual performance objectives, which may be applicable to all or any portion of the Restricted Shares or Share Units as described in **Section 14**. Neither Restricted Shares nor Share Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the restricted period or prior to the satisfaction of any other restrictions prescribed by the Board with respect to such Restricted Shares or Share Units.

10.3. Restricted Share Certificates.

Pursuant to **Section 3.8**, to the extent that ownership of Restricted Shares is evidenced by a book-entry registration or direct registration, such registration shall be notated to evidence the restrictions imposed on such Award of Restricted Shares under the Plan and the applicable Award

Agreement. Subject to **Section 3.8** and the immediately following sentence, the Company may issue, in the name of each Grantee to whom Restricted Shares have been granted, share certificates representing the total number of Restricted Shares granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee's benefit until such time as the shares of Restricted Shares are forfeited to the Company or the restrictions applicable thereto lapse and such Grantee shall deliver a stock power to the Company with respect to each certificate, or (ii) such certificates shall be delivered to the Grantee, provided, however, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

10.4. Rights of Holders of Restricted Shares.

Unless the Board otherwise provides in an Award Agreement, holders of Restricted Shares shall have the right to vote such Shares and the right to receive any dividends declared or paid with respect to such Shares. The Board may provide that any dividends paid on Restricted Shares must be reinvested in Shares, which may or may not be subject to the same vesting conditions and restrictions applicable to such Restricted Shares. All distributions, if any, received by a Grantee with respect to Restricted Shares as a result of any share split, share dividend, combination of shares, or other similar transaction shall be subject to the restrictions applicable to the original Grant. Holders of Restricted Shares may not make an election under Code Section 83(b) with regard to the grant of Restricted Shares, and any holder who attempts to make such an election shall forfeit the Restricted Shares.

10.5. Rights of Holders of Share Units.

10.5.1. Voting and Dividend Rights.

Holders of Share Units shall have no rights as shareholders of the Company (for example, the right to receive cash or dividend payments or distributions attributable to the Shares subject to such Share Units, to direct the voting of the Shares subject to such Share Units, or to receive notice of any meeting of the Company's shareholders). The Board may provide in an Award Agreement evidencing a grant of Share Units that the holder of such Share Units shall be entitled to receive, upon the Company's payment of a cash dividend on its outstanding Shares, a cash payment for each Share Unit held equal to the per-share dividend paid on the Shares. Such Award Agreement may also provide that such cash payment will be deemed reinvested in additional Share Units at a price per unit equal to the Fair Market Value of a Share on the date that such dividend is paid. Notwithstanding the foregoing, if a grantor trust is established in connection with the Awards of Share Units and Shares are held in the grantor trust for purposes of satisfying the Company's obligation to deliver Shares in connection with such Share Units, the Award Agreement for such Share Units may provide that such cash payment shall be deemed reinvested in additional Share Units at a price per unit equal to the actual price paid for each Share by the trustee of the grantor trust upon such trustee's reinvestment of the cash dividend received.

10.5.2. Creditor's Rights.

A holder of Share Units shall have no rights other than those of a general creditor of the Company. Share Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement.

10.6. Termination of Service.

Unless the Board otherwise provides in an Award Agreement or in writing after the Award Agreement is issued, upon the termination of a Grantee's Service, any Restricted Shares or Share Units held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of Restricted Shares or Share Units, the Grantee shall have no further rights with respect to such Award, including but not limited to any right to vote Restricted Shares or any right to receive dividends with respect to Restricted Shares or Share Units.

10.7. Purchase of Restricted Shares and Shares Subject to Share Units.

The Grantee shall be required, to the extent required by Applicable Laws, to purchase the Restricted Shares or Shares subject to vested Share Units from the Company at a Purchase Price equal to the greater of (i) the aggregate par value of the Shares represented by such Restricted Shares or Share Units or (ii) the Purchase Price, if any, specified in the Award Agreement relating to such Restricted Shares or Share Units. The Purchase Price shall be payable in a form described in **Section 12** or, in the discretion of the Board, in consideration for past or future Services rendered to the Company or an Affiliate.

10.8. Delivery of Shares.

Upon the expiration or termination of any restricted period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to Restricted Shares or Share Units settled in Shares shall lapse, and, unless otherwise provided in the applicable Award Agreement, a book-entry or direct registration or a share certificate evidencing ownership of such Shares shall, consistent with **Section 3.8**, be issued, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be. Neither the Grantee, nor the Grantee's beneficiary or estate, shall have any further rights with regard to a Share Unit once the Shares represented by the Share Unit has been delivered.

11. TERMS AND CONDITIONS OF UNRESTRICTED SHARE AWARDS AND OTHER EQUITY-BASED AWARDS

The Board may, in its sole discretion, grant (or sell at par value or such other higher purchase price determined by the Board) an Unrestricted Shares Award to any Grantee pursuant to which such Grantee may receive Shares free of any restrictions ("Unrestricted Shares") under the Plan. Unrestricted Shares Awards may be granted or sold to any Grantee as provided in the immediately preceding sentence in respect of past or, if so provided in the related Award Agreement or a separate agreement, the promise by the Grantee to perform future Service to the

Company or an Affiliate or other valid consideration, or in lieu of, or in addition to, any cash compensation due to such Grantee.

The Board may, in its sole discretion, grant Awards to Participants in the form of Other Equity-Based Awards, as deemed by the Board to be consistent with the purposes of the Plan. Awards granted pursuant to this **Section 11** may be granted with vesting, value and/or payment contingent upon the attainment of one or more performance goals. The Board shall determine the terms and conditions of such Awards at the date of grant or thereafter. Unless the Board otherwise provides in an Award Agreement or in writing after the Award Agreement is issued, upon the termination of a Grantee's Service, any Other Equity-Based Awards held by such Grantee that have not vested, or with respect to which all applicable restrictions and conditions have not lapsed, shall immediately be deemed forfeited. Upon forfeiture of Other Equity-Based Awards, the Grantee shall have no further rights with respect to such Award.

12. FORM OF PAYMENT FOR OPTIONS AND RESTRICTED SHARES

12.1. General Rule.

Payment of the Option Price for the Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Shares shall be made in cash or in cash equivalents acceptable to the Company.

12.2. Surrender of Shares.

To the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Shares may be made all or in part through the tender or attestation to the Company of Shares, which shall be valued, for purposes of determining the extent to which the Option Price or Purchase Price has been paid thereby, at their Fair Market Value on the date of exercise or surrender, as applicable.

12.3. Cashless Exercise.

With respect to an Option only (and not with respect to Restricted Shares), to the extent permitted by law and to the extent the Award Agreement so provides, payment of the Option Price for Shares purchased pursuant to the exercise of an Option may be made all or in part (i) by delivery (on a form acceptable to the Board) by the Grantee of an irrevocable direction to a licensed securities broker acceptable to the Company to sell Shares and to deliver all or part of the sales proceeds to the Company in payment of the Option Price and any withholding taxes described in **Section 19.3**, or, (ii) with the consent of the Company, by the Grantee electing to have the Company issue to Grantee only that the number of Shares equal in value to the difference between the Option Price and the Fair Market Value of the Shares subject to the portion of the Option being exercised.

12.4. Other Forms of Payment.

To the extent the Award Agreement so provides and/or unless otherwise specified in an Award Agreement, payment of the Option Price for Shares purchased pursuant to exercise of an

Option or the Purchase Price for Restricted Shares may be made in any other form that is consistent with Applicable Laws, regulations and rules, including, without limitation, Service to the Company or an Affiliate or net exercise.

13. TERMS AND CONDITIONS OF DIVIDEND EQUIVALENT RIGHTS

13.1. Dividend Equivalent Rights.

A Dividend Equivalent Right is an Award entitling the recipient to receive credits based on cash distributions that would have been paid on the Shares specified in the Dividend Equivalent Right (or other award to which it relates) if such Shares had been issued to and held by the recipient. A Dividend Equivalent Right may be granted hereunder to any Grantee, *provided* that no Dividend Equivalent Rights may be granted in connection with, or related to, an Award of Options or SARs. The terms and conditions of Dividend Equivalent Rights shall be specified in the grant. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional Shares, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment. Dividend Equivalent Rights may be settled in cash or Shares or a combination thereof, in a single installment or installments, all determined in the sole discretion of the Board. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other award. A Dividend Equivalent Right granted as a component of another Award may also contain terms and conditions different from the terms and conditions of such other Award. A cash amount credited pursuant to a Dividend Equivalent Right granted as a component of another Award which vests or is earned based upon the achievement of performance goals shall not vest unless such performance goals for such underlying Award are achieved.

13.2. Termination of Service.

Except as may otherwise be provided by the Board either in the Award Agreement or in writing after the Award Agreement is issued, a Grantee's rights in all Dividend Equivalent Rights or interest equivalents shall automatically terminate upon the Grantee's termination of Service for any reason.

14. TERMS AND CONDITIONS OF PERFORMANCE AWARDS AND ANNUAL INCENTIVE AWARDS

14.1. Grant of Performance Awards and Annual Incentive Awards.

Subject to the terms and provisions of the Plan, the Board, at any time and from time to time, may grant Performance Awards and/or Annual Incentive Awards to a Plan participant in such amounts and upon such terms as the Board shall determine.

14.2. Value of Performance Awards and Annual Incentive Awards.

Each Performance Award and Annual Incentive Award shall have an initial value that is established by the Board at the time of grant. The Board shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Awards that will be paid out to the Plan participant.

14.3. Earning of Performance Awards and Annual Incentive Awards.

Subject to the terms of the Plan, after the applicable Performance Period has ended, the holder of Performance Awards or Annual Incentive Awards shall be entitled to receive payout on the value and number of the Performance Awards or Annual Incentive Awards earned by the Plan participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

14.4. Form and Timing of Payment of Performance Awards and Annual Incentive Awards.

Payment of earned Performance Awards and Annual Incentive Awards shall be as determined by the Board and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Board, in its sole discretion, may pay earned Performance Awards in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Awards at the close of the applicable Performance Period, or as soon as practicable after the end of the Performance Period; provided that, unless specifically provided in the Award Agreement pertaining to the grant of the Award, such payment shall occur no later than the 15th day of the third month following the end of the calendar year in which the Performance Period ends. Any Shares may be granted subject to any restrictions deemed appropriate by the Committee. The determination of the Committee with respect to the form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

14.5. Performance Conditions.

The right of a Grantee to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Board. The Board may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions. If and to the extent required under Code Section 162(m), any power or authority relating to an Award intended to qualify under Code Section 162(m), shall be exercised by the Committee and not the Board.

14.6. Performance Awards or Annual Incentive Awards Granted to Designated Covered Employees.

If and to the extent that the Board determines that a Performance or Annual Incentive Award to be granted to a Grantee who is designated by the Committee as likely to be a Covered Employee should qualify as "qualified performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this **Section 14.6**.

14.6.1. Performance Goals Generally.

The performance goals for Performance or Annual Incentive Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this **Section 14.6**. Performance goals shall be objective and shall otherwise meet the requirements of Code Section 162(m) and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to the grant, exercise and/or settlement of such Awards. Performance goals may differ for Awards granted to any one Grantee or to different Grantees.

14.6.2. Timing For Establishing Performance Goals.

Performance goals shall be established not later than the earlier of (i) 90 days after the beginning of any performance period applicable to such Awards and (ii) the day on which twenty-five percent (25%) of any performance period applicable to such Awards has expired, or at such other date as may be required or permitted for "qualified performance-based compensation" under Code Section 162(m).

14.6.3. Settlement of Awards; Other Terms.

Settlement of such Awards shall be in cash, Shares, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Awards. The Committee shall specify the circumstances in which such Performance or Annual Incentive Awards shall be paid or forfeited in the event of termination of Service by the Grantee prior to the end of a performance period or settlement of Awards.

14.6.4. Performance Measures.

The performance goals upon which the payment or vesting of a Performance or Annual Incentive Award to a Covered Employee that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures, with or without adjustment:

(a) revenue per available room ("RevPar");

(b) hotel occupancy rates;

(c) funds from operations;

(d) adjusted funds from operations;

(e) net earnings or net income;

(f) operating earnings;

(g) pretax earnings;

(h) earnings per share;

(i) Share price, including growth measures and total shareholder return;

(j) earnings before interest and taxes;

(k) earnings before interest, taxes, depreciation and/or amortization;

(l) return measures, including return on assets, capital, investment, equity, sales or revenue;

(m) cash flow, including operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment;

(n) expense targets;

(o) market share;

(p) financial ratios as provided in credit agreements of the Company and its subsidiaries;

(q) working capital targets;

(r) completion of asset acquisitions or dispositions and/or achievement of acquisition or disposition goals;

(s) revenues under management;

(t) distributions to shareholders;

(u) RevPar penetration ratios; and

(v) any combination of any of the foregoing business criteria.

Business criteria may be (but are not required to be) measured on a basis consistent with U.S. Generally Accepted Accounting Principles.

Any Performance Measure(s) may be used to measure the performance of the Company, Subsidiary, and/or Affiliate as a whole or any business unit of the Company, Subsidiary, and/or Affiliate or any combination thereof, as the Committee may deem appropriate, or any of the above Performance Measures as compared to the performance of a group of comparable companies, or published or special index that the Committee, in its sole discretion, deems appropriate, or the Company may select Performance Measure (f) above as compared to various stock market indices. The Committee also has the authority to provide for accelerated vesting of

any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this **Section 14**.

14.6.5. Evaluation of Performance.

The Committee may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occur during a Performance Period: (a) asset write-downs; (b) litigation or claim judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results; (d) any reorganization and restructuring programs; (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing in the Company's annual report to shareholders for the applicable year; (f) acquisitions or divestitures; and (g) foreign exchange gains and losses. To the extent such inclusions or exclusions affect Awards to Covered Employees that are intended to qualify as Performance-Based Compensation, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

14.6.6. Adjustment of Performance-Based Compensation.

Awards that are intended to qualify as Performance-Based Compensation may not be adjusted upward. The Committee shall retain the discretion to adjust such Awards downward, either on a formula or discretionary basis, or any combination as the Committee determines.

14.6.7. Board Discretion.

In the event that applicable tax and/or securities laws change to permit Board discretion to alter the governing Performance Measures without obtaining shareholder approval of such changes, the Board shall have sole discretion to make such changes without obtaining shareholder approval provided the exercise of such discretion does not violate Code Sections 162(m) or 409A. In addition, in the event that the Board determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Board may make such grants without satisfying the requirements of Code Section 162(m) and base vesting on Performance Measures other than those set forth in **Section 14.6.4**.

14.7. Status of Awards Under Code Section 162(m).

It is the intent of the Company that Awards under **Section 14.6** granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder shall, if so designated by the Committee, constitute "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of **Section 14.6**, including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. If any provision of the Plan or any agreement relating to such Awards does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

15. TERMS AND CONDITIONS OF LONG-TERM INCENTIVE UNITS

LTIP Units are intended to be profits interests in the operating partnership affiliated with the Company, if any (such operating partnership, if any, the "Operating Partnership"), the rights and features of which, if applicable, will be set forth in the agreement of limited partnership for the Operating Partnership (the "Operating Partnership Agreement"). Subject to the terms and provisions of the Plan and the Operating Partnership Agreement, the Committee, at any time and from time to time, may grant LTIP Units to Plan participants in such amounts and upon such terms as the Committee shall determine. LTIP Units must be granted for service to the Operating Partnership.

15.1. Vesting.

Subject to **Section 18**, each LTIP Unit granted under the Plan shall vest at such times and under such conditions as shall be determined by the Committee and stated in the Award Agreement.

16. PARACHUTE LIMITATIONS

If the Grantee is a "disqualified individual," as defined in Code Section 280G(c), then, notwithstanding any other provision of the Plan or of any other agreement, contract, or understanding heretofore or hereafter entered into by a Grantee with the Company or an Affiliate, except an agreement, contract, or understanding that expressly addresses Code Section 280G or Code Section 4999 (an "Other Agreement"), and notwithstanding any formal or informal plan or other arrangement for the direct or indirect provision of compensation to the Grantee (including groups or classes of Grantees or beneficiaries of which the Grantee is a member), whether or not such compensation is deferred, is in cash, or is in the form of a benefit to or for the Grantee (a "Benefit Arrangement"), any right to exercise, vesting, payment or benefit to the Grantee under the Plan shall be reduced or eliminated:

(i) to the extent that such right to exercise, vesting, payment, or benefit, taking into account all other rights, payments, or benefits to or for the Grantee under the Plan, all Other Agreements, and all Benefit Arrangements, would cause any exercise, vesting, payment or benefit to the Grantee under the Plan to be considered a "parachute payment" within the meaning of Code Section 280G(b)(2) as then in effect (a "Parachute Payment") and

(ii) if, as a result of receiving such Parachute Payment, the aggregate after-tax amounts received by the Grantee from the Company under the Plan, all Other Agreements, and all Benefit Arrangements would be less than the maximum after-tax amount that could be received by the Grantee without causing any such payment or benefit to be considered a Parachute Payment.

The Company shall accomplish such reduction by first reducing or eliminating any cash payments (with the payments to be made furthest in the future being reduced first), then by reducing or eliminating any accelerated vesting of Performance Awards, then by reducing or eliminating any accelerated vesting of Options or SARs, then by reducing or eliminating any

accelerated vesting of Restricted Shares or Share Units, then by reducing or eliminating any other remaining Parachute Payments.

17. REQUIREMENTS OF LAW

17.1. General.

No participant in the Plan will be permitted to acquire, or will have any right to acquire, Shares thereunder if such acquisition would be prohibited by any share ownership limits contained in charter or bylaws or would impair the Company's status as a REIT. The Company shall not be required to offer, sell or issue any Shares under any Award if the offer, sale or issuance of such Shares would constitute a violation by the Grantee, any other individual or entity exercising an Option, or the Company or an Affiliate of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the offering, listing, registration or qualification of any Shares subject to an Award upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of Shares hereunder, no Shares may be offered, issued or sold to the Grantee or any other individual or entity exercising an Option pursuant to such Award unless such offering, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Award. Without limiting the generality of the foregoing, in connection with the Securities Act, upon the exercise of any Option or any SAR that may be settled in Shares or the delivery of any Shares underlying an Award, unless a registration statement under such Act is in effect with respect to the Shares covered by such Award, the Company shall not be required to offer, sell or issue such Shares unless the Board has received evidence satisfactory to it that the Grantee or any other individual or entity exercising an Option or SAR or accepting delivery of such Shares may acquire such Shares pursuant to an exemption from registration under the Securities Act. Any determination in this connection by the Board shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or a SAR or the issuance of Shares pursuant to the Plan to comply with any Applicable Laws. As to any jurisdiction that expressly imposes the requirement that an Option (or SAR that may be settled in Shares) shall not be exercisable until the Shares covered by such Option (or SAR) are registered under the securities laws thereof or are exempt from such registration, the exercise of such Option (or SAR) under circumstances in which the laws of such jurisdiction apply shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

17.2. Rule 16b-3.

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards pursuant to the Plan and the exercise of Options and SARs granted hereunder that would otherwise be subject to Section 16(b) of the Exchange Act will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative with respect to such Awards to the

extent permitted by Applicable Law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify the Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

18. EFFECT OF CHANGES IN CAPITALIZATION

18.1. Changes in Shares.

If the number of outstanding Shares is increased or decreased or the Shares are changed into or exchanged for a different number or kind of Shares or other securities of the Company on account of any recapitalization, reclassification, share split, reverse share split, spin-off, combination of share, exchange of shares, share dividend or other distribution payable in capital shares, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the Effective Date, the number and kinds of shares for which grants of Options and other Awards may be made under the Plan, including, without limitation, the limits set forth in **Section 6.2**, shall be adjusted proportionately and accordingly by the Company in a manner deemed equitable by the Committee. In addition, the number and kind of shares for which Awards are outstanding shall be adjusted proportionately and accordingly so that the proportionate interest of the Grantee immediately following such event shall, to the extent practicable, be the same as immediately before such event. Any such adjustment in outstanding Options or SARs shall not change the aggregate Option Price or SAR Exercise Price payable with respect to shares that are subject to the unexercised portion of an outstanding Option or SAR, as applicable, but shall include a corresponding proportionate adjustment in the Option Price or SAR Exercise Price per share. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. Notwithstanding the foregoing, in the event of any distribution to the Company's shareholders of securities of any other entity or other assets (including an extraordinary dividend but excluding a non-extraordinary dividend of the Company) without receipt of consideration by the Company, the Company shall, in such manner as the Company deems appropriate, adjust (i) the number and kind of shares subject to outstanding Awards and/or (ii) the exercise price of outstanding Options and Share Appreciation Rights to reflect such distribution.

18.2. Reorganization in Which the Company Is the Surviving Entity Which Does not Constitute a Change in Control.

Subject to **Section 18.3**, if the Company shall be the surviving entity in any reorganization, merger, or consolidation of the Company with one or more other entities which does not constitute a Change in Control, any Option or SAR theretofore granted pursuant to the Plan shall pertain to and apply to the securities to which a holder of the number of Shares subject to such Option or SAR would have been entitled immediately following such reorganization, merger, or consolidation, with a corresponding proportionate adjustment of the Option Price or SAR Exercise Price per share so that the aggregate Option Price or SAR Exercise Price thereafter shall be the same as the aggregate Option Price or SAR Exercise Price of the Shares remaining subject to the Option or SAR immediately prior to such reorganization, merger, or consolidation. Subject to any contrary language in an Award Agreement evidencing an Award, or in another agreement with the Grantee, or otherwise set forth in writing, any restrictions applicable to such Award shall apply as

well to any replacement shares received by the Grantee as a result of the reorganization, merger or consolidation. In the event of a transaction described in this **Section 18.2**, Performance Awards shall be adjusted (including any adjustment to the Performance Measures applicable to such Awards deemed appropriate by the Committee) so as to apply to the securities that a holder of the number of Shares subject to the Performance Awards would have been entitled to receive immediately following such transaction.

18.3. Change in Control in which Awards are not Assumed.

Except as otherwise provided in the applicable Award Agreement or in another agreement with the Grantee, or as otherwise set forth in writing, upon the occurrence of a Change in Control in which outstanding Options, SARs, Share Units, Dividend Equivalent Rights, Restricted Shares, LTIP Units or other Equity-Based Awards are not being assumed or continued:

(i) in each case with the exception of any Performance Award, all outstanding Restricted Shares and LTIP Units shall be deemed to have vested, all Share Units shall be deemed to have vested and the Shares subject thereto shall be delivered, and all Dividend Equivalent Rights shall be deemed to have vested and the Shares subject thereto shall be delivered, immediately prior to the occurrence of such Change in Control, and

(ii) either of the following two actions shall be taken:

(A) fifteen (15) days prior to the scheduled consummation of a Change in Control, all Options and SARs outstanding hereunder shall become immediately exercisable and shall remain exercisable for a period of fifteen (15) days, or

(B) the Board may elect, in its sole discretion, to cancel any outstanding Awards of Options, Restricted Shares, Share Units, and/or SARs and pay or deliver, or cause to be paid or delivered, to the holder thereof an amount in cash or securities having a value (as determined by the Board acting in good faith), in the case of Restricted Shares or Share Units, equal to the formula or fixed price per share paid to holders of Shares and, in the case of Options or SARs, equal to the product of the number of Shares subject to the Option or SAR (the "Award Shares") multiplied by the amount, if any, by which (I) the formula or fixed price per share paid to holders of Shares pursuant to such transaction exceeds (II) the Option Price or SAR Exercise Price applicable to such Award Shares.

(iii) for Performance Awards denominated in Shares, Share Units or LTIP Units, if less than half of the Performance Period has lapsed, the Awards shall be converted into Restricted Shares or Share Units assuming target performance has been achieved (or Unrestricted Shares if no further restrictions apply). If more than half the Performance Period has lapsed, the Awards shall be converted into Restricted Shares or Share Units based on actual performance to date (or Unrestricted Shares if no further restrictions apply). If actual performance is not determinable, then Performance Awards shall be converted into Restricted Shares or Share Units assuming target performance has been achieved, based on the discretion of the Committee (or Unrestricted Shares if no further restrictions apply).

(iv) Other-Equity Based Awards shall be governed by the terms of the applicable Award Agreement.

With respect to the Company's establishment of an exercise window, (i) any exercise of an Option or SAR during such fifteen (15)-day period shall be conditioned upon the consummation of the event and shall be effective only immediately before the consummation of the event, and (ii) upon consummation of any Change in Control, the Plan and all outstanding but unexercised Options and SARs shall terminate. The Board shall send notice of an event that will result in such a termination to all individuals and entities that hold Options and SARs not later than the time at which the Company gives notice thereof to its shareholders.

18.4. Change in Control in which Awards are Assumed.

Except as otherwise provided in the applicable Award Agreement or in another agreement with the Grantee, or as otherwise set forth in writing, upon the occurrence of a Change in Control in which outstanding Awards are being assumed or continued, the following provisions shall apply to such Award, to the extent assumed or continued:

The Plan, Options, SARs, Share Units, Restricted Shares and Other Equity-Based Awards theretofore granted shall continue in the manner and under the terms so provided in the event of any Change in Control to the extent that provision is made in writing in connection with such Change in Control for the assumption or continuation of the Options, SARs, Share Units, Restricted Shares and Other Equity-Based Awards theretofore granted, or for the substitution for such Options, SARs, Share Units, Restricted Shares and Other Equity-Based Awards for new common stock options and stock appreciation rights and new common stock units, restricted stock and other equity-based awards relating to the stock of a successor entity, or a parent or subsidiary thereof, with appropriate adjustments as to the number of shares (disregarding any consideration that is not common stock) and option and stock appreciation rights exercise prices.

18.5. Adjustments

Adjustments under this **Section 18** related to Shares or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share. The Board shall determine the effect of a Change in Control upon Awards other than Options, SARs, Share Units and Restricted Shares, and such effect shall be set forth in the appropriate Award Agreement. The Board may provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Grantee,

for different provisions to apply to an Award in place of those described in **Sections 18.1, 18.2, 18.3** and **18.4**. This **Section 18** does not limit the Company's ability to provide for alternative treatment of Awards outstanding under the Plan in the event of change in control events that do not constitute a Change in Control.

18.6. No Limitations on Company.

The making of Awards pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets (including all or any part of the business or assets of any Subsidiary or other Affiliate) or engage in any other transaction or activity.

19. GENERAL PROVISIONS

19.1. Disclaimer of Rights.

No provision in the Plan or in any Award or Award Agreement shall be construed to confer upon any individual or entity the right to remain in the employ or Service of the Company or an Affiliate, or to interfere in any way with any contractual or other right or authority of the Company or an Affiliate either to increase or decrease the compensation or other payments to any individual or entity at any time, or to terminate any employment or other relationship between any individual or entity and the Company or an Affiliate. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, in another agreement with the Grantee, or otherwise in writing, no Award granted under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to provide Service. The obligation of the Company to pay any benefits pursuant to the Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan and Awards shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Grantee or beneficiary under the terms of the Plan.

19.2. Nonexclusivity of the Plan.

Neither the adoption of the Plan nor the submission of the Plan to the shareholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals) as the Board in its discretion determines desirable.

19.3. Withholding Taxes.

The Company or an Affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the vesting of or other lapse of restrictions applicable to an Award or upon the issuance of any Shares upon the exercise of an Option or pursuant to an Award. At the time of such vesting, lapse, or exercise, the Grantee shall pay in cash to the Company or an Affiliate, as the case may be, any amount that the Company or an Affiliate may reasonably determine to be necessary to satisfy such withholding obligation; provided, that if there is a same-day sale of Shares subject to an Award, the Grantee shall pay such withholding obligation on the day on which such same-day sale is completed. Subject to the prior approval of the Company or an Affiliate, which may be withheld by the Company or an Affiliate, as the case

may be, in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Company or an Affiliate to withhold Shares otherwise issuable to the Grantee or (ii) by delivering to the Company or an Affiliate Shares already owned by the Grantee. The Shares so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations. The Fair Market Value of the Shares used to satisfy such withholding obligation shall be determined by the Company or an Affiliate as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this **Section 19.3** may satisfy his or her withholding obligation only with Shares that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements. The maximum number of Shares that may be withheld from any Award to satisfy any federal, state or local tax withholding requirements upon the exercise, vesting, lapse of restrictions applicable to such Award or payment of Shares pursuant to such Award, as applicable, cannot exceed such number of Shares having a Fair Market Value equal to the minimum statutory amount required by the Company or an Affiliate to be withheld and paid to any such federal, state or local taxing authority with respect to such exercise, vesting, lapse of restrictions or payment of Shares. Notwithstanding **Section 2.19** or this **Section 19.3**, for purposes of determining taxable income and the amount of the related tax withholding obligation pursuant to this **Section 19.3**, for any Shares subject to an Award that are sold by or on behalf of a Grantee on the same date on which such shares may first be sold pursuant to the terms of the related Award Agreement, the Fair Market Value of such shares shall be the sale price of such shares on such date (or if sales of such shares are effectuated at more than one sale price, the weighted average sale price of such shares on such date), so long as such Grantee has provided the Company or an Affiliate, or its designee or agent, with advance written notice of such sale.

19.4. Captions.

The use of captions in the Plan or any Award Agreement is for the convenience of reference only and shall not affect the meaning of any provision of the Plan or such Award Agreement.

19.5. Other Provisions.

Each Award granted under the Plan may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion.

19.6. Number and Gender.

With respect to words used in the Plan, the singular form shall include the plural form, the masculine gender shall include the feminine gender, etc., as the context requires.

19.7. Severability.

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

19.8. Governing Law.

The validity and construction of the Plan and the instruments evidencing the Awards hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan and the instruments evidencing the Awards granted hereunder to the substantive laws of any other jurisdiction.

19.9. Code Section 409A.

The Company intends to comply with Code Section 409A, or an exemption to Code Section 409A, with regard to Awards hereunder that constitute nonqualified deferred compensation within the meaning of Code Section 409A. To the extent that the Company determines that a Grantee would be subject to the additional twenty percent (20%) tax imposed on certain nonqualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of any Award granted under the Plan, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Board.

* * *

To record adoption of the Plan by the Board as of **[ ]**, 2011, and approval of the Plan by the shareholders on **[ ]**, 2011, the Company has caused its authorized officer to execute the Plan.

RLJ LODGING TRUST

By: _____

Title: _____

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

RESTRICTED SHARES AGREEMENT

RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), hereby grants its common shares of beneficial interests, par value $0.01 ("Restricted Shares") to the Grantee named below, subject to the vesting and other conditions set forth below. Additional terms and conditions of the grant are set forth in this cover sheet and in the attachment (collectively, the "Agreement") and in the Company's 2011 Equity Incentive Plan (as amended from time to time, the "Plan").

Name of Grantee:

Grantee's Social Security Number: - -

Number of Restricted Shares:

Grant Date:

Vesting Schedule:

[ ]

Purchase Price per Share: $.

By your signature below, you agree to all of the terms and conditions described herein, in the attached Agreement and in the Plan, a copy of which is also attached. You acknowledge that you have carefully reviewed the Plan, and agree that the Plan will control in the event any provision of this cover sheet or Agreement should appear to be inconsistent.

Grantee: _____ Date: _____
(Signature)

Company: _____ Date: _____
(Signature)

Title:

Attachment

This is not a share certificate or a negotiable instrument.

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

RESTRICTED SHARES AGREEMENT

Restricted Shares

This Agreement evidences an award of Shares in the number set forth on the cover sheet and subject to the vesting and other conditions set forth herein, in the Plan and on the cover sheet (the "Restricted Shares"). The purchase price is deemed paid by your **[**prior**]** Service.

Transfer of Unvested Restricted Shares

Unvested Restricted Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered, whether by operation of law or otherwise, nor may the Restricted Shares be made subject to execution, attachment or similar process. If you attempt to do any of these things, the Restricted Shares will immediately become forfeited.

Issuance and Vesting

The Company will issue your Restricted Shares in the name set forth on the cover sheet.

Your rights under this Restricted Shares grant and this Agreement shall vest in accordance with the vesting schedule set forth on the cover sheet so long as you continue in Service on the vesting dates set forth on the cover sheet.

[Notwithstanding your vesting schedule, the Restricted Shares will become 100% vested upon your termination of Service due to your death or Disability.**]**

[Change in Control

Notwithstanding the vesting schedule set forth above, upon the consummation of a Change in Control, the Restricted Shares will become 100% vested (i) if the Restricted Shares are not assumed, or equivalent restricted securities are not substituted for the Restricted Shares, by the Company or its successor, or (ii) if assumed or substituted for, upon your Involuntary Termination within the 12-month period following the consummation of the Change in Control.

"Involuntary Termination" means termination of your Service by reason of (i) your involuntary dismissal by the Company or its successor for reasons other than Cause; or (ii) your voluntary resignation for Good Reason as defined in any applicable employment or severance agreement, plan, or arrangement between you and the Company, or if none, then as set forth in the Plan following (x) a substantial adverse alteration in your title or responsibilities from those in effect immediately prior to the Change in Control; (y) a reduction in your annual base salary as of immediately prior to the Change in Control (or as the same may be increased from time to time) or a material reduction in your annual target bonus opportunity as of immediately prior to the Change in Control; or (z) the relocation of

your principal place of employment to a location more than 35 miles from your principal place of employment as of the Change in Control or the Company's requiring you to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with your business travel obligations as of immediately prior to the Change in Control. To qualify as an "Involuntary Termination" you must provide notice to the Company of any of the foregoing occurrences within 90 days of the initial occurrence and the Company shall have 30 days to remedy such occurrence.**]**

Evidence of Issuance

The issuance of the Shares under the grant of Restricted Shares evidenced by this Agreement shall be evidenced in such a manner as the Company, in its discretion, deems appropriate, including, without limitation, book-entry, direct registration or issuance of one or more share certificates, with any unvested Restricted Shares bearing the appropriate restrictions imposed by this Agreement. As your interest in the Restricted Shares vests, the recordation of the number of Restricted Shares attributable to you will be appropriately modified if necessary.

Forfeiture of Unvested Restricted Shares

Unless the termination of your Service triggers accelerated vesting of your Restricted Shares or other treatment pursuant to the terms of this Agreement, the Plan, or any other written agreement between the Company or any Affiliate and you, you will automatically forfeit to the Company all of the unvested Restricted Shares in the event you are no longer providing Service.

Forfeiture of Rights

If you should take actions in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of any the Company or any Affiliate or any confidentiality obligation with respect to the Company or any Affiliate or otherwise in competition with the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to the Restricted Shares awarded under this Agreement and the Restricted Shares shall immediately expire.

In addition, if you have vested in Restricted Shares during the **[**three**]** year period prior to your actions, you will owe the Company a cash payment (or forfeiture of Shares) in an amount determined as follows: (1) for any Shares that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), and (2) for any Shares that you still own, the amount will be the number of Shares owned times the Fair Market Value of the Shares on the date you receive notice from the Company (provided, that the Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the Restricted Shares or any other Shares or making a cash payment or a combination of these methods as determined by the Company in its

sole discretion).

Leaves of Absence

For purposes of this Agreement, your Service does not terminate when you go on a *bona fide* leave of absence that was approved by your employer in writing if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. Your Service terminates in any event when the approved leave ends unless you immediately return to active employee work.

Your employer may determine, in its discretion, which leaves count for this purpose, and when your Service terminates for all purposes under the Plan in accordance with the provisions of the Plan. Notwithstanding the foregoing, the Company may determine, in its discretion, that a leave counts for this purpose even if your employer does not agree.

Withholding Taxes

You agree as a condition of this grant that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the vesting or receipt of the Restricted Shares. In the event that the Company or any Affiliate determines that any federal, state, local or foreign tax or withholding payment is required relating to the vesting or receipt of Shares arising from this grant, the Company or any Affiliate shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company or any Affiliate (including withholding the delivery of vested Shares otherwise deliverable under this Agreement).

Retention Rights

This Agreement and the grant evidenced hereby do not give you the right to be retained by the Company or any Affiliate in any capacity. Unless otherwise specified in an employment or other written agreement between the Company or any Affiliate and you, the Company or any Affiliate reserves the right to terminate your Service at any time and for any reason.

Shareholder Rights

You will be entitled to receive, upon the Company's payment of a cash dividend on outstanding Shares, an amount of Restricted Shares equal to the per-share dividend paid on the Restricted Shares that you hold as of the record date for such dividend, which shall be subject to the same vesting, forfeiture and other conditions as the associated Restricted Shares. No adjustments are made for dividends or other rights if the applicable record date occurs before an appropriate book entry is made (or your certificate is issued), except as described in the Plan.

Your grant shall be subject to the terms of any applicable agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

Legends

If and to the extent that the Shares are represented by certificates rather

than book entry, all certificates representing the Shares issued under this grant shall, where applicable, have endorsed thereon the following legends:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING, FORFEITURE AND OTHER RESTRICTIONS ON TRANSFER AND OPTIONS TO PURCHASE SUCH SHARES SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS OR HER PREDECESSOR IN INTEREST. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND WILL BE FURNISHED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY BY THE HOLDER OF RECORD OF THE SHARES REPRESENTED BY THIS CERTIFICATE."

To the extent the Shares are represented by a book entry, such book entry will contain an appropriate legend or restriction similar to the foregoing.

Clawback

This Award is subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to any Company "clawback" or recoupment policy that requires the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws and you knowingly engaged in the misconduct, were grossly negligent in engaging in the misconduct, knowingly failed to prevent the misconduct or were grossly negligent in failing to prevent the misconduct, you shall reimburse the Company the amount of any payment in settlement of this Award earned or accrued during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document that contained such material noncompliance.

[Notwithstanding any other provision of the Plan or any provision of this Agreement, if the Company is required to prepare an accounting restatement, then you shall forfeit any cash or Shares received in connection with this Award (or an amount equal to the fair market value of such Shares on the date of delivery if you no longer hold the Shares) if pursuant to the terms of this Agreement, the amount of the Award earned or the vesting in the Award was explicitly based on the achievement of pre-established performance goals set forth in this Agreement (including earnings, gains, or other criteria) that are later

determined, as a result of the accounting restatement, not to have been achieved.**] [Include if any performance goals are included in award]**

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

The Plan

The text of the Plan is incorporated in this Agreement by reference.

Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant. Any prior agreements, commitments or negotiations concerning this grant are superseded; except that any written employment, consulting, confidentiality, non-competition, non-solicitation and/or severance agreement between you and the Company or any Affiliate shall supersede this Agreement with respect to its subject matter.

Data Privacy

In order to administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to, information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as your contact information, payroll information and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan.

By accepting this grant, you give explicit consent to the Company to process any such personal data.

Code Section 409A

It is intended that this Award comply with Code Section 409A or an exemption to Code Section 409A. To the extent that the Company determines that you would be subject to the additional 20% tax imposed on certain non-qualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of this Agreement, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Company. For purposes of this Award, a termination of Service only occurs upon an event that would be a Separation from Service within the meaning of Code Section 409A.

By signing this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.4

(Trustee)

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

RESTRICTED SHARES AGREEMENT

RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), hereby grants its common shares of beneficial interests, par value $0.01 ("Restricted Shares") to the Grantee named below, subject to the vesting and other conditions set forth below. Additional terms and conditions of the grant are set forth in this cover sheet and in the attachment (collectively, the "Agreement") and in the Company's 2011 Equity Incentive Plan (as amended from time to time, the "Plan").

Name of Grantee:

Grantee's Social Security Number: - -

Number of Restricted Shares:

Grant Date:

Vesting Schedule:

[ ]

Purchase Price per Share: $.

By your signature below, you agree to all of the terms and conditions described herein, in the attached Agreement and in the Plan, a copy of which is also attached. You acknowledge that you have carefully reviewed the Plan, and agree that the Plan will control in the event any provision of this cover sheet or Agreement should appear to be inconsistent.

Grantee: _____ Date: _____
(Signature)

Company: _____ Date: _____
(Signature)

Title:

Attachment

This is not a share certificate or a negotiable instrument.

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

RESTRICTED SHARES AGREEMENT

Restricted Shares

This Agreement evidences an award of Shares in the number set forth on the cover sheet and subject to the vesting and other conditions set forth herein, in the Plan and on the cover sheet (the "Restricted Shares"). The purchase price is deemed paid by your **[**prior**]** Service.

Transfer of Unvested Restricted Shares

Unvested Restricted Shares may not be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered, whether by operation of law or otherwise, nor may the Restricted Shares be made subject to execution, attachment or similar process. If you attempt to do any of these things, the Restricted Shares will immediately become forfeited.

Issuance and Vesting

The Company will issue your Restricted Shares in the name set forth on the cover sheet.

Your rights under this Restricted Shares grant and this Agreement shall vest in accordance with the vesting schedule set forth on the cover sheet so long as you continue in Service on the vesting dates set forth on the cover sheet.

[Notwithstanding your vesting schedule, the Restricted Shares will become 100% vested upon your termination of Service due to your death or Disability.**]**

[Change in Control

Notwithstanding the vesting schedule set forth above, upon the consummation of a Change in Control, the Restricted Shares will become 100% vested if the Restricted Shares are not assumed, or equivalent restricted securities are not substituted for the Restricted Shares, by the Company or its successor.**]**

Evidence of Issuance

The issuance of the Shares under the grant of Restricted Shares evidenced by this Agreement shall be evidenced in such a manner as the Company, in its discretion, deems appropriate, including, without limitation, book-entry, direct registration or issuance of one or more share certificates, with any unvested Restricted Shares bearing the appropriate restrictions imposed by this Agreement. As your interest in the Restricted Shares vests, the recordation of the number of Restricted Shares attributable to you will be appropriately modified if necessary.

Forfeiture of Unvested Restricted Shares

Unless the termination of your Service triggers accelerated vesting of your Restricted Shares or other treatment pursuant to the terms of this Agreement, the Plan, or any other written agreement between the Company or any Affiliate and you, you will automatically forfeit to the Company all of the unvested Restricted Shares in the event you are no

longer providing Service.

Forfeiture of Rights

If you should take actions in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of any the Company or any Affiliate or any confidentiality obligation with respect to the Company or any Affiliate or otherwise in competition with the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to the Restricted Shares awarded under this Agreement and the Restricted Shares shall immediately expire.

In addition, if you have vested in Restricted Shares during the **[**three**]** year period prior to your actions, you will owe the Company a cash payment (or forfeiture of Shares) in an amount determined as follows: (1) for any Shares that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), and (2) for any Shares that you still own, the amount will be the number of Shares owned times the Fair Market Value of the Shares on the date you receive notice from the Company (provided, that the Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the Restricted Shares or any other Shares or making a cash payment or a combination of these methods as determined by the Company in its sole discretion).

Withholding Taxes

You agree as a condition of this grant that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the vesting or receipt of the Restricted Shares. In the event that the Company or any Affiliate determines that any federal, state, local or foreign tax or withholding payment is required relating to the vesting or receipt of Shares arising from this grant, the Company or any Affiliate shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company or any Affiliate (including withholding the delivery of vested Shares otherwise deliverable under this Agreement).

Retention Rights

This Agreement and the grant evidenced hereby do not give you the right to be retained by the Company or any Affiliate in any capacity. Unless otherwise specified in a written agreement between the Company or any Affiliate and you, the Company or any Affiliate reserves the right to terminate your Service at any time and for any reason.

Shareholder Rights

You will be entitled to receive, upon the Company's payment of a cash dividend on outstanding Shares, an amount of Restricted Shares equal to the per-share dividend paid on the Restricted Shares that you hold as of the record date for such dividend, which shall be subject to the same vesting, forfeiture and other conditions as the associated Restricted

Shares. No adjustments are made for dividends or other rights if the applicable record date occurs before an appropriate book entry is made (or your certificate is issued), except as described in the Plan.

Your grant shall be subject to the terms of any applicable agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

Legends

If and to the extent that the Shares are represented by certificates rather than book entry, all certificates representing the Shares issued under this grant shall, where applicable, have endorsed thereon the following legends:

"THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING, FORFEITURE AND OTHER RESTRICTIONS ON TRANSFER AND OPTIONS TO PURCHASE SUCH SHARES SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS OR HER PREDECESSOR IN INTEREST. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY AND WILL BE FURNISHED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY BY THE HOLDER OF RECORD OF THE SHARES REPRESENTED BY THIS CERTIFICATE."

To the extent the Shares are represented by a book entry, such book entry will contain an appropriate legend or restriction similar to the foregoing.

Clawback

This Award is subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to any Company "clawback" or recoupment policy that requires the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

The Plan

The text of the Plan is incorporated in this Agreement by reference.

Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant. Any prior agreements, commitments or negotiations concerning this grant are superseded; except that any written employment, consulting,

confidentiality, non-competition, non-solicitation and/or severance agreement between you and the Company or any Affiliate shall supersede this Agreement with respect to its subject matter.

Data Privacy

In order to administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to, information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as your contact information, payroll information and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan.

By accepting this grant, you give explicit consent to the Company to process any such personal data.

Code Section 409A

It is intended that this Award comply with Code Section 409A or an exemption to Code Section 409A. To the extent that the Company determines that you would be subject to the additional 20% tax imposed on certain non-qualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of this Agreement, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Company. For purposes of this Award, a termination of Service only occurs upon an event that would be a Separation from Service within the meaning of Code Section 409A.

By signing this Agreement, you agree to all of the terms and conditions described above and in the Plan.

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

NON-QUALIFIED OPTION AGREEMENT

RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), hereby grants an option to purchase its common shares of beneficial interests, par value $0.01 (the "Option"), to the optionee named below, subject to the vesting and other conditions set forth below. Additional terms and conditions of the grant are set forth in this cover sheet and in the attachment (collectively, the "Agreement"), and in the Company's 2011 Equity Incentive Plan (as amended from time to time, the "Plan").

Grant Date: , 20

Name of Optionee:

Optionee's Social Security Number: - -

Number of Shares Covered by Option:

Option Price per Share: $. **(At least 100% of Fair Market Value)**

Vesting Schedule **[ ]**

By your signature below, you agree to all of the terms and conditions described herein, in the attached Agreement and in the Plan, a copy of which is also attached. You acknowledge that you have carefully reviewed the Plan, and agree that the Plan will control in the event any provision of this cover sheet or Agreement should appear to be inconsistent.

Optionee: _____ Date: _____
(Signature)

Company: _____ Date: _____
(Signature)
Title:

Attachment

This is not a share certificate or a negotiable instrument.

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

NON-QUALIFIED OPTION AGREEMENT

Non-qualified Option

This Agreement evidences an award of an Option exercisable for that number of Shares set forth on the cover sheet and subject to the vesting and other conditions set forth herein, in the Plan and on the cover sheet. This option is not intended to be an incentive option under Section 422 of the Internal Revenue Code and will be interpreted accordingly.

Transfer of Option

During your lifetime, only you (or, in the event of your legal incapacity or incompetency, your guardian or legal representative) may exercise the Option. The Option may not be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered, whether by operation of law or otherwise, nor may the Option be made subject to execution, attachment or similar process.

If you attempt to do any of these things, this Option will immediately become forfeited.

Notwithstanding these restrictions on transfer, the Plan administrator may authorize, in its sole discretion, the transfer of a vested Option (in whole or in part) to a member of your immediate family or a trust for the benefit of your immediate family.

Vesting

Your Option shall vest in accordance with the vesting schedule shown on the cover sheet so long as you continue in Service on the vesting dates set forth on the cover sheet and is exercisable only as to its vested portion.

No additional Shares will vest after your Service has terminated for any reason.

[Change in Control

Notwithstanding the vesting schedule set forth above, upon the consummation of a Change in Control, this option will become 100% vested (i) if it is not assumed, or equivalent options are not substituted for the options, by the Company or its successor, or (ii) if assumed or substituted for, upon your Involuntary Termination within the 12-month period following the consummation of the Change in Control. Notwithstanding any other provision in this Agreement, if assumed or substituted for, the option will expire one year after the date of your termination of Service, for any reason, within such 12-month period.

"Involuntary Termination" means termination of your Service by reason of (i) your involuntary dismissal by the Company or its successor for reasons other than Cause; or (ii) your voluntary resignation for Good Reason as defined in any applicable employment or severance agreement, plan, or arrangement between you and the Company, or if none, then as set forth in the Plan following (x) a substantial adverse alteration in your title or responsibilities from those in effect immediately prior to the Change in Control; (y) a reduction in your annual base salary as of immediately prior to the Change in Control (or as the same may be increased from time to time) or a material reduction in your annual target bonus opportunity as of immediately prior to the Change in Control; or (z) the relocation of your principal place of employment to a location more than 35 miles from your principal place of employment as of the Change in Control or the Company's requiring you to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with your business travel obligations as of immediately prior to the Change in Control. To qualify as an "Involuntary Termination" you must provide notice to the Company of any of the foregoing occurrences within 90 days of the initial occurrence and the Company shall have 30 days to remedy such occurrence.**]**

Forfeiture of Unvested Options / Term

Unless the termination of your Service triggers accelerated vesting or other treatment of your Option pursuant to the terms of this Agreement, the Plan, or any other written agreement between the Company or Affiliate and you, you will automatically forfeit to the Company those portions of the Option that have not yet vested in the event your Service terminates for any reason.

Your option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, as shown on the cover sheet. Your option will expire earlier if your Service terminates, as described below.

Expiration of Vested Options After Service Terminates

If your Service terminates for any reason, other than death, Disability or Cause, then the vested portion of your Option will expire at the close of business at Company headquarters on the 90th day after your termination date.

If your Service terminates because of your death or Disability, or if you die during the 90-day period after your termination for any reason (other than Cause), then the vested portion of your Option will expire at the close of business at Company headquarters on the date twelve (12) months after the date of your death or termination for Disability.

During that twelve (12) month period, your estate or heirs may exercise the vested portion of your Option.

If your Service is terminated for Cause, then you shall immediately forfeit all rights to your entire Option and the Option shall immediately expire.

Forfeiture of Rights

If you should take actions in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any Affiliate or any confidentiality obligation with respect to the Company or any Affiliate or otherwise in competition with the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to this Option and the Option shall immediately expire.

In addition, if you have exercised any options during the **[**three**]** year period prior to your actions, you will owe the Company a cash payment (or forfeiture of Shares) in an amount determined as follows: (1) for any Shares that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), less the option exercise price, and (2) for any Shares that you still own, the amount will be the number of Shares owned times the Fair Market Value of the Shares on the date you receive notice from the Company, less the option exercise price (provided, that the Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the Shares or any other Shares or making a cash payment or a combination of these methods as determined by the Company in its sole discretion).

Leaves of Absence

For purposes of this Agreement, your Service does not terminate when you go on a *bona fide* leave of absence that was approved by your employer in writing if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. Your Service terminates in any event when the approved leave ends unless you immediately return to active employee work.

Your employer may determine, in its discretion, which leaves count for this purpose, and when your Service terminates for all purposes under the Plan in accordance with the provisions of the Plan. Notwithstanding the foregoing, the Company may determine, in its discretion, that a leave counts for this purpose even if your employer does not agree.

Notice of Exercise

The Option may be exercised, in whole or in part, to purchase a whole number of vested Shares of not less than 100 shares, unless the

number of vested Shares purchased is the total number available for purchase under the option, by following the procedures set forth in the Plan and in this Agreement.

When you wish to exercise this Option, you must exercise in a manner required or permitted by the Company.

If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment

When you exercise your Option, you must include payment of the option price indicated on the cover sheet for the Shares you are purchasing. Payment may be made in one (or a combination) of the following forms:

· Cash, your personal check, a cashier's check, a money order or another cash equivalent acceptable to the Company.

· Shares which are owned by you and which are surrendered to the Company. The Fair Market Value of the Shares as of the effective date of the option exercise will be applied to the option price.

· By delivery (on a form prescribed by the Company) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell Shares and to deliver all or part of the sale proceeds to the Company in payment of the aggregate option price and any withholding taxes (if approved in advance by the Committee of the Board if you are either an executive officer or a director of the Company).

Evidence of Issuance

The issuance of the Shares upon exercise of this Option shall be evidenced in such a manner as the Company, in its discretion, will deem appropriate, including, without limitation, book-entry, direct registration or issuance of one or more Shares certificates.

Withholding Taxes

You agree as a condition of this grant that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the Option exercise or sale of Shares acquired under this Option. In the event that the Company or any Affiliate determines that any federal, state, local or foreign tax or withholding payment is required relating to the exercise of this Option or sale of Shares arising from this Option, the Company or any Affiliate shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company or any Affiliate (including withholding the delivery of vested Shares otherwise deliverable under this Agreement).

Retention Rights

This Agreement and the grant evidenced hereby do not give you the right to be retained by the Company or any Affiliate in any capacity. Unless otherwise specified in an employment or other written agreement between the Company or any Affiliate and you, the Company or any Affiliate reserves the right to terminate your Service at any time and for any reason.

Shareholder Rights

You, or your estate or heirs, have no rights as a shareholder of the Company until the Shares has been issued upon exercise of your Option and either a certificate evidencing your Shares has been issued or an appropriate entry has been made on the Company's books. No adjustments are made for dividends, distributions or other rights if the applicable record date occurs before your certificate is issued (or an appropriate book entry is made), except as described in the Plan.

Your Option shall be subject to the terms of any applicable agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

Clawback

This Award is subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to any Company "clawback" or recoupment policy that requires the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws and you knowingly engaged in the misconduct, were grossly negligent in engaging in the misconduct, knowingly failed to prevent the misconduct or were grossly negligent in failing to prevent the misconduct, you shall reimburse the Company the amount of any payment in settlement of this Award earned or accrued during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document that contained such material noncompliance.

[Notwithstanding any other provision of the Plan or any provision of this Agreement, if the Company is required to prepare an accounting restatement, then you shall forfeit any cash or Shares received in connection with this Award (or an amount equal to the fair market value of such Shares on the date of delivery if you no longer hold the Shares) if pursuant to the terms of this Agreement, the amount of the Award earned or the vesting in the Award was explicitly based on the

achievement of pre-established performance goals set forth in this Agreement (including earnings, gains, or other criteria) that are later determined, as a result of the accounting restatement, not to have been achieved.**] [Include if any performance goals are included in award]**

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

The Plan

The text of the Plan is incorporated in this Agreement by reference.

Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments or negotiations concerning this grant are superseded; except that any written employment, consulting, confidentiality, non-competition, non-solicitation and/or severance agreement between you and the Company or any Affiliate shall supersede this Agreement with respect to its subject matter.

Data Privacy

In order to administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to, information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as your contact information, payroll information and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan.

By accepting this grant, you give explicit consent to the Company to process any such personal data.

Code Section 409A

It is intended that this Award comply with Code Section 409A or an exemption to Code Section 409A. To the extent that the Company determines that you would be subject to the additional 20% tax imposed on certain non-qualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of this Agreement, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Company. For purposes of this Award, a termination of Service only occurs upon an event that would be a Separation from Service within the meaning of Code Section 409A.

By signing this Agreement, you agree to all of the terms and conditions described above and in the Plan.

Exhibit 10.6

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

SHARE UNITS AGREEMENT

RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), hereby grants share units ("Share Units") for common shares of its beneficial interests, par value $0.01 ("Shares") to the Grantee named below, subject to the vesting and other conditions set forth below. Additional terms and conditions of the grant are set forth in this cover sheet and in the attachment (collectively, the "Agreement") and in the Company's 2011 Equity Incentive Plan (as amended from time to time, the "Plan").

Name of Grantee:

Number of Share Units:

Purchase Price per Share: $0.01 (par value)

Grant Date:

Vesting Schedule:

[ ]

By your signature below, you agree to all of the terms and conditions described herein, in the attached Agreement and in the Plan, a copy of which is also attached. You acknowledge that you have carefully reviewed the Plan, and agree that the Plan will control in the event any provision of this cover sheet or Agreement should appear to be inconsistent.

Grantee: _____ Date: _____
(Signature)

Company: _____ Date: _____
(Signature)

Title:

Attachment

This is not a share certificate or a negotiable instrument.

RLJ LODGING TRUST
2011 EQUITY INCENTIVE PLAN

SHARE UNITS AGREEMENT

Share Units

This Agreement evidences an award of Shares in the number set forth on the cover sheet and subject to the vesting and other conditions set forth herein, in the Plan and on the cover sheet (the "Share Units"). The purchase price is deemed paid by your [prior] Service.

Transfer of Unvested Share Units

Unvested Share Units may not be sold, assigned, transferred, pledged, hypothecated or otherwise encumbered, whether by operation of law or otherwise, nor may the Share Units be made subject to execution, attachment or similar process. If you attempt to do any of these things, the Share Units will immediately become forfeited.

Vesting

The Company will issue your Share Units in the name set forth on the cover sheet.

Your rights under this Share Units grant and this Agreement shall vest in accordance with the vesting schedule set forth on the cover sheet so long as you continue in Service on the vesting dates set forth on the cover sheet.

[Notwithstanding your vesting schedule, the Share Units will become 100% vested upon your termination of Service due to your death or Disability.**]**

Delivery

As your Share Units vest, the Company will issue the Shares to which the then vested Share Units relate. The resulting aggregate number of vested Shares will be rounded to the nearest whole number, and you cannot vest in more than the number of shares covered by this grant.

[Change in Control

Notwithstanding the vesting schedule set forth above, upon the consummation of a Change in Control, the Share Units will become 100% vested (i) if the Share Units are not assumed, or equivalent restricted securities are not substituted for the Share Units by the Company or its successor, or (ii) if assumed or substituted for, upon your Involuntary Termination within the 12-month period following the consummation of the Change in Control.

"Involuntary Termination" means termination of your Service by reason of (i) your involuntary dismissal by the Company or its successor for reasons other than Cause; or (ii) your voluntary resignation for Good Reason as defined in any applicable employment or severance agreement, plan, or arrangement between you and the Company, or if none, then as set forth in the Plan following (x) a

substantial adverse alteration in your title or responsibilities from those in effect immediately prior to the Change in Control; (y) a reduction in your annual base salary as of immediately prior to the Change in Control (or as the same may be increased from time to time) or a material reduction in your annual target bonus opportunity as of immediately prior to the Change in Control; or (z) the relocation of your principal place of employment to a location more than 35 miles from your principal place of employment as of the Change in Control or the Company's requiring you to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with your business travel obligations as of immediately prior to the Change in Control. To qualify as an "Involuntary Termination" you must provide notice to the Company of any of the foregoing occurrences within 90 days of the initial occurrence and the Company shall have 30 days to remedy such occurrence.**]**

Evidence of Issuance

The issuance of the Shares under the grant of Share Units evidenced by this Agreement shall be evidenced in such a manner as the Company, in its discretion, will deem appropriate, including, without limitation, book-entry, registration or issuance of one or more Share certificates. You will have no further rights with regard to a Share Unit once the Share related to such Share Unit has been issued.

Forfeiture of Unvested Share Units

Unless the termination of your Service triggers accelerated vesting of your Share Units, or other treatment pursuant to the terms of this Agreement, the Plan, or any other written agreement between the Company or any Affiliate, as applicable, and you, you will automatically forfeit to the Company all of the unvested Share Units in the event you are no longer providing Service for any reason.

Forfeiture of Rights

If you should take actions in violation or breach of or in conflict with any non-competition agreement, any agreement prohibiting solicitation of employees or clients of any the Company or any Affiliate or any confidentiality obligation with respect to the Company or any Affiliate or otherwise in competition with the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to the Share Units awarded under this Agreement and the Share Units shall immediately expire.

In addition, if you have vested in Share Units during the **[**three**]** year period prior to your actions, you will owe the Company a cash payment (or forfeiture of Shares) in an amount determined as follows: (1) for any Shares that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), and (2) for any Shares that you still own, the amount will be the number of Shares owned times the Fair Market Value of the Shares on the date you receive notice from the Company (provided, that the

Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the Share Units or any other Shares or making a cash payment or a combination of these methods as determined by the Company in its sole discretion).

Leaves of Absence

For purposes of this Agreement, your Service does not terminate when you go on a *bona fide* leave of absence that was approved by your employer in writing if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by applicable law. Your Service terminates in any event when the approved leave ends unless you immediately return to active employee work.

Your employer may determine, in its discretion, which leaves count for this purpose, and when your Service terminates for all purposes under the Plan in accordance with the provisions of the Plan. Notwithstanding the foregoing, the Company may determine, in its discretion, that a leave counts for this purpose even if your employer does not agree.

Withholding Taxes

You agree as a condition of this grant that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the vesting or receipt of the Share Units within a reasonable period of time, or you shall forfeit the Shares. In the event that the Company or any Affiliate determines that any federal, state, local or foreign tax or withholding payment is required relating to the vesting or receipt of Shares arising from this grant, the Company or any Affiliate shall have the right to require such payments from you, or withhold such amounts from other payments due to you from the Company or any Affiliate (including withholding the delivery of vested Shares otherwise deliverable under this Agreement).

Retention Rights

This Agreement and the grant evidenced hereby do not give you the right to be retained by the Company or any Affiliate in any capacity. Unless otherwise specified in an employment or other written agreement between the Company or any Affiliate and you, the Company or any Affiliate reserves the right to terminate your Service at any time and for any reason.

Shareholder Rights

You, or your estate or heirs, do not have any of the rights of a shareholder with respect to any vested or unvested Share Units until the Shares have been issued to you and either a certificate evidencing your Shares have been issued or an appropriate entry has been made on the Company's books.

Your grant shall be subject to the terms of any applicable agreement of merger, liquidation or reorganization in the event the Company is subject to such corporate activity.

Clawback

This Award is subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to any Company "clawback" or recoupment policy that requires the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, and you are subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 and you knowingly engaged in the misconduct, were grossly negligent in engaging in the misconduct, knowingly failed to prevent the misconduct or were grossly negligent in failing to prevent the misconduct, you shall reimburse the Company the amount of any payment in settlement of this Award earned or accrued during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document that contained such material noncompliance.

[Notwithstanding any other provision of the Plan or any provision of this Agreement, if the Company is required to prepare an accounting restatement, then you shall forfeit any cash or Shares received in connection with this Award (or an amount equal to the fair market value of such Shares on the date of delivery if you no longer hold the Shares) if pursuant to the terms of this Agreement, the amount of the Award earned or the vesting in the Award was explicitly based on the achievement of pre-established performance goals set forth in this Agreement (including earnings, gains, or other criteria) that are later determined, as a result of the accounting restatement, not to have been achieved.**] [Include if any performance goals are included in award]**

Applicable Law

This Agreement will be interpreted and enforced under the laws of the state of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

The Plan

The text of the Plan is incorporated in this Agreement by reference.

Certain capitalized terms used in this Agreement are defined in the Plan, and have the meaning set forth in the Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant. Any prior agreements, commitments or negotiations concerning this grant are superseded; except that any written employment or consulting, and/or

severance agreement between you and the Company or an Affiliate, as applicable, shall supersede this Agreement with respect to its subject matter.

Data Privacy

In order to administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to, information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you such as your contact

information, payroll information and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan.

By accepting this grant, you give explicit consent to the Company to process any such personal data.

Code Section 409A

It is intended that this Award comply with Code Section 409A or an exemption to Code Section 409A. To the extent that the Company determines that you would be subject to the additional 20% tax imposed on certain non-qualified deferred compensation plans pursuant to Code Section 409A as a result of any provision of this Agreement, such provision shall be deemed amended to the minimum extent necessary to avoid application of such additional tax. The nature of any such amendment shall be determined by the Company. For purposes of this Award, a termination of employment only occurs upon an event that would be a Separation from Service within the meaning of Code Section 409A.

By signing this Agreement, you agree to all of the terms and conditions described above and in the Plan.

,

collectively, as Grantor

to

WACHOVIA BANK, NATIONAL ASSOCIATION,

as Lender

MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS AND FIXTURE FILING

Dated: June , 2006

PREPARED BY AND UPON RECORDATION RETURN TO:

Proskauer Rose LLP
1585 Broadway
New York, New York 10036

Attention: David J. Weinberger, Esq.

THIS MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF RENTS AND FIXTURE FILING (the "Security Instrument") is made as of the day of June, 2006, by the parties set forth as "Grantor" on the signature page hereof, having its chief executive office c/o RLJ Urban Lodging Funds, 6903 Rockledge Drive, Suite 910, Bethesda, Maryland 20817 (hereinafter collectively referred to as "Grantor"), to WACHOVIA BANK, NATIONAL ASSOCIATION, having an address at Wachovia Bank, National Association, Commercial Real Estate Services, 8739 Research Drive URP 4, NC 1075, Charlotte, North Carolina 28262 (hereinafter referred to as "Lender").

W I T N E S S E T H:

WHEREAS, Lender has authorized a loan (hereinafter referred to as the "Loan") to the Cross-collateralized Borrowers in the maximum principal sum of AND NO/100 DOLLARS ($) (hereinafter referred to as the "Loan Amount"), which Loan is evidenced by certain promissory notes, dated the date hereof given by the fee owner of the Premises ("Borrower") and certain Affiliates thereof, as maker, to Lender as payee (together with any supplements, amendments, modifications or extensions thereof, hereinafter collectively referred to as the "Note").

WHEREAS, in consideration of the Loan, the Cross-collateralized Borrowers have agreed to make payments in amounts sufficient to pay and redeem, and provide for the payment and redemption of the principal of, premium, if any, and interest on the Note when due;

WHEREAS, Grantor desires by this Security Instrument to provide for, among other things, the issuance of the Note and for the deposit, deed and pledge by Grantor with, and the creation of a security interest in favor of, Lender, as security for the Cross-collateralized Borrowers' obligations to Lender from time to time pursuant to the Note and the other Loan Documents;

WHEREAS, Grantor and Lender intend these recitals to be a material part of this Security Instrument; and

WHEREAS, all things necessary to make this Security Instrument the valid and legally binding obligation of Grantor in accordance with its terms, for the uses and purposes herein set forth, have been done and performed.

NOW THEREFORE, to secure the payment of the principal of, prepayment premium (if any) and interest on the Note and all other obligations, liabilities or sums due or to become due under this Security Instrument, the Note or any other Loan Document, including, without limitation, interest on said obligations, liabilities or sums (said principal, premium, interest and other sums being hereinafter referred to as the "Debt"), and the performance of all other covenants, obligations and liabilities of the Cross-collateralized Borrowers pursuant to the Loan Documents, Grantor has executed and delivered this Security Instrument; and Grantor has irrevocably granted, and by these presents and by the execution and delivery hereof does hereby irrevocably grant, bargain, sell, alien, demise, release, convey, assign, transfer, deed, hypothecate, pledge, set over, warrant, mortgage and confirm to Lender, forever with power of

sale, all right, title and interest of Grantor in and to all of the following property, rights, interests and estates:

(a) the plot(s), piece(s) or parcel(s) of real property described in **Exhibit A** attached hereto and made a part hereof (individually and collectively, hereinafter referred to as the "Premises");

(b) (i) all buildings, foundations, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements of every kind or nature now or hereafter located on the Premises (hereinafter collectively referred to as the "Improvements"); and (ii) to the extent permitted by law, the name or names, if any, as may now or hereafter be used for any of the Improvements, and the goodwill associated therewith;

(c) all easements, servitudes, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, ditches, ditch rights, reservoirs and reservoir rights, air rights and development rights, lateral support, drainage, gas, oil and mineral rights, tenements, hereditaments and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Premises or the Improvements and the reversion and reversions, remainder and remainders, whether existing or hereafter acquired, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Premises to the center line thereof and any and all sidewalks, drives, curbs, passageways, streets, spaces and alleys adjacent to or used in connection with the Premises and/or Improvements and all the estates, rights, titles, interests, property, possession, claim and demand whatsoever, both in law and in equity, of Grantor of, in and to the Premises and Improvements and every part and parcel thereof, with the appurtenances thereto;

(d) all machinery, equipment, systems, fittings, apparatus, appliances, furniture, furnishings, tools, fixtures, Inventory (as hereinafter defined) and articles of personal property and accessions thereof and renewals, replacements thereof and substitutions therefor (including, but not limited to, all plumbing, lighting and elevator fixtures, office furniture,

beds, bureaus, chiffonniers, chests, chairs, desks, lamps, mirrors, bookcases, tables, rugs, carpeting, drapes, draperies, curtains, shades, venetian blinds, wall coverings, screens, paintings, hangings, pictures, divans, couches, luggage carts, luggage racks, stools, sofas, chinaware, flatware, linens, pillows, blankets, glassware, foodcarts, cookware, dry cleaning facilities, dining room wagons, keys or other entry systems, bars, bar fixtures, liquor and other drink dispensers, icemakers, radios, television sets, intercom and paging equipment, electric and electronic equipment, dictating equipment, telephone systems, computerized accounting systems, engineering equipment, vehicles, medical equipment, potted plants, heating, lighting and plumbing fixtures, fire prevention and extinguishing apparatus, theft prevention equipment, cooling and air-conditioning systems, elevators, escalators, fittings, plants, apparatus, stoves, ranges, refrigerators, laundry machines, tools, machinery, engines, dynamos, motors, boilers, incinerators, switchboards, conduits, compressors, vacuum cleaning systems,

floor cleaning, waxing and polishing equipment, call systems, brackets, signs, bulbs, bells, ash and fuel, conveyors, cabinets, lockers, shelving, spotlighting equipment, dishwashers, garbage disposals, washers and dryers), other customary hotel equipment, inventory and other property of every kind and nature whatsoever owned by Grantor, or in which Grantor has or shall have an interest, now or hereafter located upon, or in, or used in connection with the Premises or the Improvements, or appurtenant thereto, and all building equipment, materials and supplies of any nature whatsoever owned by Grantor, or in which Grantor has or shall have an interest, now or hereafter located upon, or in, or used in connection with the Premises or the Improvements or appurtenant thereto, (hereinafter, all of the foregoing items described in this paragraph (d) are collectively called the "Equipment"), all of which, and any replacements, modifications, alterations and additions thereto, to the extent permitted by applicable law, shall be deemed to constitute fixtures (the "Fixtures"), and are part of the real estate and security for the payment of the Debt and the performance of Grantor's obligations. To the extent any portion of the Equipment is not real property or fixtures under applicable law, it shall be deemed to be personal property, and this Security Instrument shall constitute a security agreement creating a security interest therein in favor of Lender under the UCC;

(e) all awards or payments, including interest thereon, which may hereafter be made with respect to the Premises, the Improvements, the Fixtures, or the Equipment, whether from the exercise of the right of eminent domain (including but not limited to any transfer made in lieu of or in anticipation of the exercise of said right), or for a change of grade, or for any other injury to or decrease in the value of the Premises, the Improvements or the Equipment or refunds with respect to the payment of property taxes and assessments, and all other proceeds of the conversion, voluntary or involuntary, of the Premises, Improvements, Equipment, Fixtures or any other Property or part thereof into cash or liquidated claims;

(f) all leases, tenancies, franchises, licenses and permits, Property Agreements and other agreements affecting the use, enjoyment or occupancy of the Premises, the Improvements, the Fixtures, or the Equipment or any portion thereof now or hereafter entered into, whether before or after the filing by or against Grantor of any petition for relief under the Bankruptcy Code and all reciprocal easement agreements, license agreements and other agreements with Pad Owners, including, without limitation the existing Operating Lease (hereinafter collectively referred to as the "Leases"), together with all receivables, revenues, rentals, credit card receipts, receipts and all payments received which relate to the rental, lease, franchise and use of space at the Premises and rental and use of guest rooms or meeting rooms or banquet rooms or recreational facilities or bars, beverage or food sales, vending machines, mini-bars, room service, telephone, video and television systems, electronic mail, internet connections, guest laundry, bars, the provision or sale of other goods and services, and all other payments received from guests or visitors of the Premises, and other items of revenue, receipts or income as identified in the Uniform System of Accounts (as hereinafter defined), all cash or security deposits, lease termination payments, advance rentals and payments of similar nature and guarantees or other security held by, or issued in favor of,

Grantor in connection therewith to the extent of Grantor's right or interest therein and all remainders, reversions and other rights and estates appurtenant thereto, and all base, fixed, percentage or additional rents, and other rents, oil and gas or other mineral royalties, and bonuses, issues, profits and rebates and refunds or other payments made by any Governmental Authority from or relating to the Premises, the Improvements, the Fixtures or the Equipment plus all rents, common area charges and other payments now existing or hereafter arising, whether paid or accruing before or after the filing by or against Grantor of any petition for relief under the Bankruptcy Code (the "Rents") and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Debt;

(g) all proceeds of and any unearned premiums on any insurance policies covering the Premises, the Improvements, the Fixtures, the Rents or the Equipment, including, without limitation, the right to receive and apply the proceeds of any insurance, judgments, or settlements made in lieu thereof, for damage to the Premises, the Improvements, the Fixtures or the Equipment and all refunds or rebates of Impositions, and interest paid or payable with respect thereto;

(h) all deposit accounts, securities accounts, funds or other accounts maintained or deposited with Lender, or its assigns, in connection herewith, including, without limitation, the Security Deposit Account (to the extent permitted by law), the Escrow Accounts, the Central Account, the Rent Account, and the Sub-Accounts and all monies and investments deposited or to be deposited in such accounts;

(i) all accounts receivable, contract rights, franchises, interests, estate or other claims, both at law and in equity, now existing or hereafter arising, and relating to the Premises, the Improvements, the Fixtures or the Equipment, not included in Rents;

(j) all now existing or hereafter arising claims against any Person with respect to any damage to the Premises, the Improvements, the Fixtures or the Equipment, including, without limitation, damage arising from any defect in or with respect to the design or construction of the Improvements, the Fixtures or the Equipment and any damage resulting therefrom;

(k) all deposits or other security or advance payments, including rental payments now or hereafter made by or on behalf of Grantor to others, with respect to (i) insurance policies, (ii) utility services, (iii) cleaning, maintenance, repair or similar services, (iv) refuse removal or sewer service, (v) parking or similar services or rights and (vi) rental of Equipment, if any, relating to or otherwise used in the operation of the Premises, the Improvements, the Fixtures or the Equipment;

(l) all intangible property now or hereafter relating to the Premises, the Improvements, the Fixtures or the Equipment or its operation, including, without limitation, software, letter of credit rights, trade names, trademarks (including, without limitation, any licenses of or agreements to license trade names or trademarks now or hereafter entered into by Grantor), logos, building names and goodwill;

(m) all now existing or hereafter arising advertising material, guaranties, warranties, building permits, other permits, licenses, plans and specifications, shop and working drawings, soil tests, appraisals and other documents, materials and/or personal property of any kind now or hereafter existing in or relating to the Premises, the Improvements, the Fixtures, and the Equipment;

(n) all now existing or hereafter arising drawings, designs, plans and specifications prepared by architects, engineers, interior designers, landscape designers and any other consultants or professionals for the design, development, construction, repair and/or improvement of the Property, as amended from time to time;

(o) the right, in the name of and on behalf of Grantor, to appear in and defend any now existing or hereafter arising action or proceeding brought with respect to the Premises, the Improvements, the Fixtures or the Equipment and to commence any action or proceeding to protect the interest of Lender in the Premises, the Improvements, the Fixtures or the Equipment; and

(p) all proceeds, products, substitutions and accessions (including claims and demands therefor) of each of the foregoing.

All of the foregoing items (a) through (p), together with all of the right, title and interest of Grantor therein, are collectively referred to as the "Property".

TO HAVE AND TO HOLD the above granted and described Property unto Lender, and the successors and assigns of Lender in fee simple, forever.

PROVIDED, ALWAYS, and these presents are upon this express condition, if Grantor shall well and truly pay and discharge the Debt and perform and observe the terms, covenants and conditions set forth in the Loan Documents, then these presents and the estate hereby granted shall cease and be void.

AND Grantor covenants with and warrants to Lender that:

ARTICLE I: DEFINITIONS

Section 1.01. Certain Definitions.

For all purposes of this Security Instrument, except as otherwise expressly provided or unless the context clearly indicates a contrary intent:

(i) the capitalized terms defined in this Section have the meanings assigned to them in this Section, and include the plural as well as the singular;

(ii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP; and

(iii) the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Security Instrument as a whole and not to any particular Section or other subdivision.

"Adjusted Net Cash Flow" shall mean, as of any date of calculation, the Net Operating Income for all of the Cross-collateralized Properties over the twelve (12)-month period preceding the date of calculation less the Recurring Replacement Reserve Monthly Installment multiplied by twelve (12) for the subsequent twelve (12) month period for which sums were not deposited into the Recurring Replacement Reserve Escrow Account. The Adjusted Net Cash Flow shall be calculated by Grantor and shall be subject to the reasonable review and approval of Lender.

"Affiliate" of any specified Person shall mean any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person.

"Aggregate Debt Service Coverage" shall mean the quotient obtained by dividing the aggregate Adjusted Net Cash Flow for all of the Cross-collateralized Properties by the sum of the (a) aggregate payments of interest and principal due for such specified period under the Note (determined as of the date the calculation of Aggregate Debt Service Coverage is required or requested hereunder) and (b) aggregate payments of interest and principal due for such specified period pursuant to the terms of subordinate or mezzanine financing, if any, then affecting or related to the Cross-collateralized Properties or, if Aggregate Debt Service Coverage is being calculated in connection with a request for consent to any subordinate financing, then proposed. In determining Aggregate Debt Service Coverage, the applicable interest rate for any floating rate loan referred to in clause (b) above, if any, shall be (1) the applicable margin over the applicable index, plus the then current applicable index rate, with respect to any loan described in clause (b) above or (2) in the event that Grantor or its Affiliates with respect to any loan referenced under clause (b) obtains an interest rate protection agreement in form and substance and from a counterparty reasonably acceptable to Lender, the strike price under any interest rate protection agreement entered into by Grantor or any of its Affiliates with respect to the loan referenced under clause (b) plus the applicable margin over the applicable index.

"Allocated Loan Amount" shall mean the Initial Allocated Loan Amount of each Cross-collateralized Property as such amount may be adjusted from time to time as hereinafter set forth. Upon each adjustment of the Principal Amount (each a "Total Adjustment"), whether as a result of amortization or prepayment or as otherwise expressly provided herein or in any other Loan Document, each Allocated Loan Amount shall be increased or decreased, as the case may be, by an amount equal to the product of:

(i) the Total Adjustment, and

(ii) a fraction, the numerator of which is the applicable Allocated Loan Amount (prior to the adjustment in question) and the denominator of which is the Principal Amount prior to the adjustment to the Principal Amount which results in the recalculation of the Allocated Loan Amount.

However, when the Principal Amount is reduced as a result of Lender's receipt of a Release Price or, in connection with a Release, funds sufficient to prepay a portion of the Principal Amount in the amount of the Release Price, the Allocated Loan Amount for the Cross-collateralized Property being released and discharged from the encumbrance of the applicable Cross-collateralized Mortgage and related Loan Documents shall be reduced to zero (the amount by which such Allocated Loan Amount is reduced being referred to as the "Released Allocated Amount"), and each other Allocated Loan Amount shall be decreased by an amount equal to the product of:

(i) the excess of (A) the Release Price over (B) the Released Allocated Amount and

(ii) a fraction, the numerator of which is the applicable Allocated Loan Amount (prior to the adjustment in question) and the denominator of which is the aggregate of all of the Allocated Loan Amounts other than the Allocated Loan Amount applicable to the Cross-collateralized Property for which the Release Price was paid; and

when the Principal Amount is reduced as a result of Lender's receipt of Net Proceeds, the Allocated Loan Amount for the Cross-collateralized Property with respect to which the Net Proceeds were received shall be reduced to zero (the amount by which such Allocated Loan Amount is reduced being referred to as the "Foreclosed Allocated Amount") and each other Allocated Loan Amount shall;

(A) if the Net Proceeds exceed the Foreclosed Allocated Amount (such excess being referred to as the "Surplus Net Proceeds"), be decreased by an amount equal to the product of:

(i) the Surplus Net Proceeds and

(ii) a fraction, the numerator of which is the applicable Allocated Loan Amount (prior to the adjustment in question) and the denominator of which is the aggregate of all of the Allocated Loan Amounts (prior to the adjustment in question) other than the Allocated Loan Amount applicable to the Cross-collateralized Property with respect to which the Net Proceeds were received (such fraction being referred to as the "Net Proceeds Adjustment Fraction"), or

(B) if the Foreclosed Allocated Amount exceeds the Net Proceeds (such excess being referred to as the "Net Proceeds Deficiency"), be increased by an amount equal to the product of (i) the Net Proceeds Deficiency and (ii) the Net Proceeds Adjustment Fraction, or

(C) if the Net Proceeds equal the Foreclosed Allocated Amount, remain unadjusted; and

when the Principal Amount is reduced as a result of Lender's receipt of Loss Proceeds or partial prepayments made in accordance with Section 15.01 hereof, the Allocated Loan Amount for the

Cross-collateralized Property with respect to which the Loss Proceeds or partial prepayments were received shall be decreased by an amount equal to the sum of:

(i) with respect to Loss Proceeds, Loss Proceeds which are applied towards the reduction of the Principal Amount as set forth in Article III hereof, if any, and

(ii) with respect to partial prepayments, the amount of any such partial prepayment which is applied towards the reduction of the Principal Amount in accordance with the provisions of the Note, if any;

but in no event shall the Allocated Loan Amount for the Cross-collateralized Property with respect to which the Loss Proceeds or partial prepayments were received be reduced to an amount less than zero (the amount by which such Allocated Loan Amount is reduced being referred to as the "Loss Proceeds or Prepayment Allocated Amount") and each other Allocated Loan Amount shall be decreased by an amount equal to the product of:

(i) the excess of (A) the Loss Proceeds or such partial prepayments over (B) the Loss Proceeds or Prepayment Allocated Amount, and

(ii) a fraction, the numerator of which is the applicable Allocated Loan Amount (prior to the adjustment in question) and the denominator of which is the aggregate of all of the Allocated Loan Amounts (prior to the adjustment in question) other than the Allocated Loan Amount applicable to the Cross-collateralized Property to which such Loss Proceeds or partial prepayments were applied.

"Annual Budget" shall mean an annual budget submitted by Grantor to Lender in accordance with the terms of Section 2.09 hereof.

"Appraisal" shall mean the appraisal of the Property and all supplemental reports or updates thereto previously delivered to Lender in connection with the Loan.

"Appraiser" shall mean the Person who prepared the Appraisal.

"Approved Annual Budget" shall mean each Annual Budget approved by Lender in accordance with the terms hereof.

"Approved Manager Standard" shall mean the standard of business operations, practices and procedures customarily employed by entities having a senior executive with at least seven (7) years' experience in the management of first class "upscale" hotels which manage not less than five (5) first class "limited," "focused" or "select service" hotel properties having 700 rooms in the aggregate, including, without limitation, certain first class "limited," "focused" or "select service" hotels which contain more than 500 rooms.

"Approved Replacement Management Agreement" shall have the meaning set forth in Section 5.01 hereof.

"Architect" shall have the meaning set forth in Section 3.04(b)(i) hereof.

"Assignment" shall mean the Assignment of Leases and Rents and Security Deposits of even date herewith relating to the Property given by Grantor to Lender, as the same may be modified, amended or supplemented from time to time.

"Bank" shall mean the bank, trust company, savings and loan association or savings bank designated by Lender, in its sole and absolute discretion, in which the Central Account shall be located.

"Bankruptcy Code" shall mean 11 U.S.C. §101 et seq., as amended from time to time.

"Basic Carrying Costs" shall mean the sum of the following costs associated with the Property: (a) Real Estate Taxes and (b) insurance premiums.

"Basic Carrying Costs Escrow Account" shall mean the Escrow Account maintained pursuant to Section 5.06 hereof.

"Basic Carrying Costs Monthly Installment" shall mean Lender's estimate of one-twelfth (1/12th) of the annual amount for Basic Carrying Costs. "Basic Carrying Costs Monthly Installment" shall also include, if required by Lender, a sum of money which, together with such monthly installments, will be sufficient to make the payment of each such Basic Carrying Cost at least thirty (30) days prior to the date initially due. Should such Basic Carrying Costs not be ascertainable at the time any monthly deposit is required to be made, the Basic Carrying Costs Monthly Installment shall be determined by Lender in its reasonable discretion on the basis of the aggregate Basic Carrying Costs for the prior Fiscal Year or month or the prior payment period for such cost. As soon as the Basic Carrying Costs are fixed for the then current Fiscal Year, month or period, the next ensuing Basic Carrying Costs Monthly Installment shall be adjusted to reflect any deficiency or surplus in prior monthly payments. If at any time during the term of the Loan Lender determines that there will be insufficient funds in the Basic Carrying Costs Escrow Account to make payments when they become due and payable, Lender shall have the right to adjust the Basic Carrying Costs Monthly Installment such that there will be sufficient funds to make such payments. Notwithstanding the foregoing, provided that no Event of Default exists, if Grantor is depositing a sum with Manager on a monthly basis pursuant to the Management Agreement to be used for the payment of Basic Carrying Costs, Lender has a perfected first priority security interest in the account in which such sums are deposited and Grantor shall have delivered, or cause to be delivered to Lender proof that the Basic Carrying Costs with respect to which Manager is receiving deposits are paid not less than five (5) Business Days prior to the date upon which they are due and payable, the Basic Carrying Costs Monthly Installment shall be reduced by the amount of Basic Carrying Costs which are deposited with Manager.

"Basic Carrying Costs Sub-Account" shall mean the Sub-Account of the Central Account established pursuant to Section 5.02 into which the Basic Carrying Costs Monthly Installments shall be deposited.

"Business Day" shall mean any day other than (a) a Saturday or Sunday, or (b) a day on which banking and savings and loan institutions in the State of New York or the State of North

Carolina are authorized or obligated by law or executive order to be closed, or at any time during which the Loan is an asset of a Securitization, the cities, states and/or commonwealths used in the comparable definition of "Business Day" in the Securitization documents.

"CAP Escrow Agreement" shall have the meaning set forth in Section 5.12 hereof.

"Capital Expenditures" shall mean for any period, the amount expended for items capitalized under GAAP including expenditures for building improvements or major repairs, leasing commissions and tenant improvements.

"Cash Expenses" shall mean for any period, the operating expenses (excluding Capital Expenditures) for the Property as set forth in an Approved Annual Budget to the extent that such expenses are actually incurred by Grantor excluding payments into the Basic Carrying Costs Sub-Account, the Debt Service Payment Sub-Account and the Recurring Replacement Reserve Sub-Account.

"Central Account" shall mean an Eligible Account, maintained at the Bank, in the name of Lender or its successors or assigns (as secured party) as may be designated by Lender.

"Closing Date" shall mean the date of the Note.

"Code" shall mean the Internal Revenue Code of 1986, as amended and as it may be further amended from time to time, any successor statutes thereto, and applicable U.S. Department of Treasury regulations issued pursuant thereto.

"Condemnation Proceeds" shall mean all of the proceeds in respect of any Taking or purchase in lieu thereof.

"Contractual Obligation" shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of the property owned by it is bound.

"Control" means, when used with respect to any specific Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person whether through ownership of voting securities, beneficial interests, by contract or otherwise. The definition is to be construed to apply equally to variations of the word "Control" including "Controlled," "Controlling" or "Controlled by."

"CPI" shall mean "The Consumer Price Index (New Series) (Base Period 1982-84=100) (all items for all urban consumers)" issued by the Bureau of Labor Statistics of the United States Department of Labor (the "Bureau"). If the CPI ceases to use the 1982-84 average equaling 100 as the basis of calculation, or if a change is made in the term, components or number of items contained in said index, or if the index is altered, modified, converted or revised in any other way, then the index shall be adjusted to the figure that would have been arrived at had the change in the manner of computing the index in effect at the date of this Security Instrument not been made. If at any time during the term of this Security Instrument the CPI shall no longer be

published by the Bureau, then any comparable index issued by the Bureau or similar agency of the United States issuing similar indices shall be used in lieu of the CPI.

"Credit Card Company" shall have the meaning set forth in Section 5.01 hereof.

"Credit Card Payment Direction Letter" shall have the meaning set forth in Section 5.01 hereof.

"Cross-collateralization Agreement" shall mean that certain Cross-collateralization Agreement of even date herewith between Grantor, the other Cross-collateralized Borrowers and Lender.

"Cross-collateralized Borrowers" shall mean each Person that has executed the Note.

"Cross-collateralized Mortgage" shall mean each mortgage, deed of trust, deed to secure debt, security agreement, assignment of rents and fixture filing as originally executed or as same may hereafter from time to time be supplemented, amended, modified or extended by one or more indentures supplemental thereto granted by a Cross-collateralized Borrower to Lender as security for the Note.

"Cross-collateralized Property" shall mean each parcel or parcels of real property encumbered by a Cross-collateralized Mortgage as identified on **Exhibit C** attached hereto and made a part hereof; provided, however, at such time, if any, that a Cross-collateralized Mortgage is released by Lender, the property which was encumbered by such Cross-collateralized Property shall no longer constitute a Cross-collateralized Property.

"Curtailment Reserve Escrow Account" shall mean the Escrow Account maintained pursuant to Section 5.11 hereof into which sums shall be deposited during an O&M Operative Period.

"Curtailment Reserve Sub-Account" shall mean the Sub-Account of the Central Account established pursuant to Section 5.02 hereof into which excess cash flow shall be deposited pursuant to Section 5.05.

"Debt" shall have the meaning set forth in the Recitals hereto.

"Debt Service" shall mean the amount of interest and principal payments due and payable in accordance with the Note during an applicable period.

"Debt Service Coverage" shall mean the quotient obtained by dividing Adjusted Net Cash Flow by the sum of the (a) aggregate payments of interest and principal due for such specified period under the Note (determined as of the date the calculation of Debt Service Coverage is required or requested hereunder) and (b) aggregate payments of interest and principal due for such specified period pursuant to the terms of subordinate or mezzanine financing, if any, then affecting or related to the Property or, if Debt Service Coverage is being calculated in connection with a request for consent to any subordinate or mezzanine financing,

then proposed. In determining Debt Service Coverage, the applicable interest rate for any floating rate loan referred to in clause (b) above, if any, shall be (1) the applicable margin over the applicable index, plus the then current applicable index rate, with respect to any loan described in clause (b) above or (2) in the event that Grantor or its Affiliates with respect to any loan referenced under clause (b) obtains an interest rate protection agreement in form and substance and from a counterparty reasonably acceptable to Lender, the strike price under any interest rate protection agreement entered into by Grantor or any of its Affiliates with respect to the loan referenced under clause (b) plus the applicable margin over the applicable index.

"Debt Service Payment Sub-Account" shall mean the Sub-Account of the Central Account established pursuant to Section 5.02 hereof into which the Required Debt Service Payment shall be deposited.

"Debt Yield" shall mean Adjusted Net Cash Flow divided by the sum of (a) the unpaid Principal Amount and (b) the outstanding principal balance of any subordinate or mezzanine financing including, without limitation, the Mez Loan then affecting or related to the Property or any interest therein (determined as of the date of the calculation of Debt Yield).

"Default" shall mean any Event of Default or event which would constitute an Event of Default if all requirements in connection therewith for the giving of notice, the lapse of time, and the happening of any further condition, event or act, had been satisfied.

"Default Rate" shall mean the lesser of (a) the highest rate allowable at law and (b) five percent (5%) above the interest rate set forth in the Note.

"Default Rate Interest" shall mean, to the extent the Default Rate becomes applicable, interest in excess of the interest which would have accrued on (a) the Principal Amount and (b) any accrued but unpaid interest, if the Default Rate was not applicable.

"Defeasance Deposit" shall mean an amount equal to the total cost incurred or to be incurred in the purchase on behalf of Grantor of Federal Obligations necessary to meet the Scheduled Defeasance Payments.

"Defeased Note" shall have the meaning set forth in Section 15.01 hereof.

"Development Laws" shall mean all applicable subdivision, zoning, environmental protection, wetlands protection, or land use laws or ordinances, and any and all applicable rules and regulations of any Governmental Authority promulgated thereunder or related thereto.

"Disclosure Document" shall mean a prospectus, prospectus supplement, private placement memorandum, or similar offering memorandum or offering circular, in each case in preliminary or final form, used to offer securities in connection with a Securitization.

"Dollar" and the sign "$" shall mean lawful money of the United States of America.

"Eligible Account" shall mean a segregated account which is either (a) an account or accounts maintained with a federal or state chartered depository institution or trust company the long term unsecured debt obligations of which are rated by each of the Rating Agencies (or, if not rated by Fitch, Inc. ("Fitch"), otherwise acceptable to Fitch, as confirmed in writing that such account would not, in and of itself, result in a downgrade, qualification or withdrawal of the then current ratings assigned to any certificates issued in connection with a Securitization) in its highest rating category at all times (or, in the case of the Basic Carrying Costs Escrow Account, the long term unsecured debt obligations of which are rated at least "AA" (or its equivalent)) by each of the Rating Agencies (or, if not rated by Fitch, otherwise acceptable to Fitch, as confirmed in writing that such account would not, in and of itself, result in a downgrade, qualification or withdrawal of the then current ratings assigned to any certificates issued in connection with a Securitization) or, if the funds in such account are to be held in such account for less than thirty (30) days, the short term obligations of which are rated by each of the Rating Agencies (or, if not rated by Fitch, otherwise acceptable to Fitch, as confirmed in writing that such account would not, in and of itself, result in a downgrade, qualification or withdrawal of the then current ratings assigned to any certificates issued in connection with a Securitization) in its highest rating category at all times or (b) a segregated trust account or accounts maintained with a federal or state chartered depository institution or trust company acting in its fiduciary capacity which, in the

case of a state chartered depository institution is subject to regulations substantially similar to 12 C.F.R. § 9.10(b), having in either case a combined capital and surplus of at least $100,000,000 and subject to supervision or examination by federal and state authority, or otherwise acceptable (as evidenced by a written confirmation from each Rating Agency that such account would not, in and of itself, cause a downgrade, qualification or withdrawal of the then current ratings assigned to any certificates issued in connection with a Securitization) to each Rating Agency, which may be an account maintained by Lender or its agents. Eligible Accounts may bear interest. The title of each Eligible Account shall indicate that the funds held therein are held in trust for the uses and purposes set forth herein.

"Engineer" shall have the meaning set forth in Section 3.04(b)(i) hereof.

"Engineering Escrow Account" shall mean an Escrow Account established and maintained pursuant to Section 5.12 hereof relating to payments for any Required Engineering Work.

"Environmental Problem" shall mean any of the following:

(a) the presence of any Hazardous Material on, in, under, or above all or any portion of the Property;

(b) the release or threatened release of any Hazardous Material from or onto the Property;

(c) the violation or threatened violation of any Environmental Statute with respect to the Property; or

(d) the failure to obtain or to abide by the terms or conditions of any permit or approval required under any Environmental Statute with respect to the Property.

A condition described above shall be an Environmental Problem regardless of whether or not any Governmental Authority has taken any action in connection with the condition and regardless of whether that condition was in existence on or before the date hereof.

"Environmental Report" shall mean the environmental audit report for the Property and any supplements or updates thereto, previously delivered to Lender in connection with the Loan.

"Environmental Statute" shall mean any federal, state or local statute, ordinance, rule or regulation, any judicial or administrative order (whether or not on consent) or judgment applicable to Grantor or the Property including, without limitation, any judgment or settlement based on common law theories, and any provisions or condition of any permit, license or other authorization binding on Grantor relating to (a) the protection of the environment, the safety and health of persons (including employees) or the public welfare from actual or potential exposure (or effects of exposure) to any actual or potential release, discharge, disposal or emission (whether past or present) of any Hazardous Materials or (b) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Materials, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §9601 et seq., the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Solid and Hazardous Waste Amendments of 1984, 42 U.S.C. §6901 et seq., the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1977, 33 U.S.C. §1251 et seq., the Toxic Substances Control Act of 1976, 15 U.S.C. §2601 et seq., the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. §1101 et seq., the Clean Air Act of 1966, as amended, 42 U.S.C. §7401 et seq., the National Environmental Policy Act of 1975, 42 U.S.C. §4321, the Rivers and Harbors Act of 1899, 33 U.S.C. §401 et seq., the Endangered Species Act of 1973, as amended, 16 U.S.C. §1531 et seq., the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. §651 et seq., and the Safe Drinking Water Act of 1974, as amended, 42 U.S.C. §300(f) et seq., and all rules, regulations and guidance documents promulgated or published thereunder.

"Equipment" shall have the meaning set forth in granting clause (d) of this Security Instrument.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder. Section references to ERISA are to ERISA, as in effect at the date of this Security Instrument and, as of the relevant date, any subsequent provisions of ERISA, amendatory thereof, supplemental thereto or substituted therefor.

"ERISA Affiliate" shall mean any corporation or trade or business that is a member of any group of organizations (a) described in Section 414(b) or (c) of the Code of which Grantor or Guarantor is a member and (b) solely for purposes of potential liability under Section 302(c)(11)

of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which Grantor or Guarantor is a member.

"Escrow Account" shall mean each of the Engineering Escrow Account, the Basic Carrying Costs Escrow Account, the Recurring Replacement Reserve Escrow Account, the Operation and Maintenance Expense Escrow Account and the Curtailment Reserve Escrow Account, each of which shall be an Eligible Account or book entry sub-account of an Eligible Account.

"Event of Default" shall have the meaning set forth in Section 13.01 hereof.

"Extraordinary Expense" shall mean an extraordinary operating expense or capital expense not set forth in the Approved Annual Budget or allotted for in the Recurring Replacement Reserve Sub-Account.

"Federal Obligations" shall mean non-callable direct obligations of, or obligations fully guaranteed as to payment of principal and interest by, the United States of America or any agency or instrumentality thereof provided that such obligations are backed by the full faith and credit of the United States of America as chosen by Grantor, subject to the approval of Lender.

"Fiscal Year" shall mean the twelve (12) month period commencing on January 1 and ending on December 31 during each year of the term of this Security Instrument, or such other fiscal year of Grantor as Grantor may select from time to time with the prior written consent of Lender.

"Fixtures" shall have the meaning set forth in granting clause (d) of this Security Instrument.

"Franchise Agreement" shall mean any franchise agreement relating to the operation of the Premises, together with all renewals and replacements thereof.

"GAAP" shall mean generally accepted accounting principles in the United States of America, as of the date of the applicable financial report, consistently applied.

"General Partner" shall mean, if Grantor is a partnership, each general partner of Grantor and, if Grantor is a limited liability company, each managing member of Grantor.

"Governmental Authority" shall mean, with respect to any Person, any federal or State government or other political subdivision thereof and any entity, including any regulatory or administrative authority or court, exercising executive, legislative, judicial, regulatory or administrative or quasi-administrative functions of or pertaining to government, and any arbitration board or tribunal, in each case having jurisdiction over such applicable Person or such Person's property and any stock exchange on which shares of capital stock of such Person are listed or admitted for trading.

"Grantor" shall mean the Person named herein as "Grantor" and any successor to the obligations of Grantor.

"Grantor Account" shall mean an Eligible Account maintained in the name of Grantor.

"Guarantor" shall mean any Person guaranteeing, in whole or in part, the obligations of Grantor under the Loan Documents.

"Hazardous Material" shall mean any flammable, explosive or radioactive materials, hazardous materials or wastes, hazardous or toxic substances, pollutants or related materials, asbestos or any material containing asbestos, molds, spores and fungus which may pose a risk to human health or the environment or any other substance or material as defined in or regulated by any Environmental Statutes.

"Impositions" shall mean all taxes (including, without limitation, all real estate, ad valorem, sales (including those imposed on lease rentals), use, single business, gross receipts, value added, intangible, transaction, privilege or license or similar taxes), assessments (including, without limitation, all assessments for public improvements or benefits, whether or not commenced or completed prior to the date hereof and whether or not commenced or completed within the term of this Security Instrument), ground rents, water, sewer or other rents and charges, excises, levies, fees (including, without limitation, license, permit, inspection, authorization and similar fees), and all other governmental charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character in respect of the Property and/or any Rent (including all interest and penalties thereon), which at any time prior to, during or in respect of the term hereof may be assessed or imposed on or in respect of or be a lien upon (a) Grantor (including, without limitation, all franchise, single business or other taxes imposed on Grantor for the privilege of doing business in the jurisdiction in which the Property or any other collateral delivered or pledged to Lender in connection with the Loan is located) or Lender, (b) the Property or any part thereof or any Rents therefrom or any estate, right, title or interest therein, or (c) any occupancy, operation, use or possession of, or sales from, or activity conducted on, or in connection with the Property, or any part thereof, or the leasing or use of the Property, or any part thereof, or the acquisition or financing of the acquisition of the Property, or any part thereof, by Grantor.

"Improvements" shall have the meaning set forth in granting clause (b) of this Security Instrument.

"Indemnified Parties" shall have the meaning set forth in Section 12.01 hereof.

"Independent" shall mean, when used with respect to any Person, a Person who (a) is in fact independent, (b) does not have any direct financial interest or any material indirect financial interest in Grantor, or in any Affiliate of Grantor or any constituent partner, shareholder, member or beneficiary of Grantor, (c) is not connected with Grantor or any Affiliate of Grantor or any constituent partner, shareholder, member or beneficiary of Grantor as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions and (d) is not a member of the immediate family of a Person defined in (b) or (c) above. Whenever it is

herein provided that any Independent Person's opinion or certificate shall be provided, such opinion or certificate shall state that the Person executing the same has read this definition and is Independent within the meaning hereof.

"Initial Allocated Loan Amount" shall mean the portion of the Loan Amount initially allocated to each Cross-collateralized Property as set forth on **Exhibit C** annexed hereto and made a part hereof.

"Initial Engineering Deposit" shall equal the amount set forth on **Exhibit B** attached hereto and made a part hereof.

"Institutional Lender" shall mean any of the following Persons: (a) any bank, savings and loan association, savings institution, trust company or national banking association, acting for its own account or in a fiduciary capacity, (b) any charitable foundation, (c) any insurance company or pension and/or annuity company, (d) any fraternal benefit society, (e) any pension, retirement or profit sharing trust or fund within the meaning of Title I of ERISA or for which any bank, trust company, national banking association or investment adviser registered under the Investment Advisers Act of 1940, as amended, is acting as trustee or agent, (f) any investment company or business development company, as defined in the Investment Company Act of 1940, as amended, (g) any small business investment company licensed under the Small Business Investment Act of 1958, as amended, (h) any broker or dealer registered under the Securities Exchange Act of 1934, as amended, or any investment adviser registered under the Investment Adviser Act of 1940, as amended, (i) any government, any public employees' pension or retirement system, or any other government agency supervising the investment of public funds, or (j) any other entity all of the equity owners of which are Institutional Lenders; provided that each of said Persons shall have net assets in excess of $1,000,000,000 and a net worth in excess of $500,000,000, be in the business of making commercial mortgage loans, secured by properties of like type, size and value as the Property and have a long term credit rating which is not less than "BBB-" (or its equivalent) from each Rating Agency.

"Insurance Proceeds" shall mean all of the proceeds received under the insurance policies required to be maintained by Grantor pursuant to Article III hereof.

"Insurance Requirements" shall mean all terms of any insurance policy required by this Security Instrument, all requirements of the issuer of any such policy, and all regulations and then current standards applicable to or affecting the Property or any use or condition thereof, which may, at any time, be recommended by the Board of Fire Underwriters, if any, having jurisdiction over the Property, or such other Person exercising similar functions.

"Interest Accrual Period" shall mean the period commencing on the Closing Date through and including the tenth (10th) day of the calendar month in which the Closing Date occurs if the Closing Date occurs on or prior to the tenth (10th) day of such calendar month, or the tenth (10th) day of the calendar month immediately subsequent to the calendar month in which the Closing Date occurs if the Closing Date occurs subsequent to the tenth (10th) day of a calendar month and, thereafter, each one (1) month period, which shall commence on the eleventh (11th)

day of each calendar month and end on and include the tenth (10th) day of the next occurring calendar month.

"Interest Rate" shall have the meaning set forth in the Note.

"Interest Shortfall" shall mean any shortfall in the amount of interest required to be paid with respect to the Loan Amount on any Payment Date.

"Inventory" shall have the meaning given such term in the Uniform Commercial Code applicable in the State in which the Property is located, including, without limitation, provisions in storerooms, refrigerators, pantries and kitchens, beverages in wine cellars and bars, other merchandise for sale, fuel, mechanical supplies, stationery and other expenses, supplies and similar items, as defined in the Uniform System of Accounts.

"Late Charge" shall have the meaning set forth in Section 13.09 hereof.

"Leases" shall have the meaning set forth in granting clause (f) of this Security Instrument.

"Legal Requirement" shall mean, as to any Person, the certificate of incorporation, by-laws, certificate of limited partnership, agreement of limited partnership or other organization or governing documents of such Person, and any law, statute, order, ordinance, judgement, decree, injunction, treaty, rule or regulation (including, without limitation, Environmental Statutes, Development Laws and Use Requirements) or determination of an arbitrator or a court or other Governmental Authority and all covenants, agreements, restrictions and encumbrances contained in any instruments, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Lender" shall mean the Lender named herein and its successors or assigns.

"Loan" shall have the meaning set forth in the Recitals hereto.

"Loan Amount" shall have the meaning set forth in the Recitals hereto.

"Loan Documents" shall mean this Security Instrument, the Note, the Assignment, and any and all other agreements, instruments, certificates or documents executed and delivered by Grantor, any of the Cross-collateralized Borrowers or any Affiliate of Grantor in connection with the Loan, together with any supplements, amendments, modifications or extensions thereof.

"Loan-to-Value Ratio" shall mean, at the time of calculation, the ratio of (a) the Principal Amount to (b) the aggregate value of the Cross-collateralized Properties. The value of each of the Cross-collateralized Properties shall be determined by Lender in its reasonable discretion and the aggregate value of the Cross-collateralized Properties shall equal the aggregate of the value

of each of the Cross-collateralized Properties as so determined by Lender; provided, however, the value of each of the Cross-collateralized Properties shall be subject to the review and approval of the Cross-collateralized Borrower owning such Cross-collateralized Property and if

such Cross-collateralized Borrower objects in writing to Lender's determination of the value of any Cross-collateralized Property at any time, Lender will commission, at such Cross-collateralized Borrower's sole cost and expense, a third-party independent appraiser reasonably satisfactory to Lender and such Cross-collateralized Borrower to prepare an appraisal of the value of such Cross-collateralized Property in form and substance acceptable to Lender, in its reasonable discretion, which appraisal and the appraised value of such Cross-collateralized Property therein shall be binding on Lender and such Cross-collateralized Borrower for purposes hereof and used as the value of such Cross-collateralized Property for purposes of calculating the Loan-to-Value Ratio at such time.

"Loan Year" shall mean each 365 day period (or 366 day period if the month of February in a leap year is included) commencing on the first day of the month following the Closing Date (provided, however, that the first Loan Year shall also include the period from the Closing Date to the end of the month in which the Closing Date occurs).

"Lockout Expiration Date" shall have the meaning set forth in Section 15.01 hereof.

"Loss Proceeds" shall mean, collectively, all Insurance Proceeds and all Condemnation Proceeds.

"Major Space Lease" shall mean any Space Lease of a tenant or Affiliate of such tenant where such tenant, together with such Affiliate, leases, in the aggregate, 5,000 square feet or more and each restaurant, bar and/or casino lease.

"Management Agreement" shall have the meaning set forth in Section 7.02 hereof.

"Manager" shall mean the Person, other than Grantor, which manages the Property on behalf of Grantor.

"Manager Certification" shall have the meaning set forth in Section 2.09 hereof.

"Material Adverse Effect" shall mean any event or condition that has a material adverse effect on (a) the Property, (b) the business, prospects, profits, management, operations or condition (financial or otherwise) of Grantor, (c) the enforceability, validity, perfection or priority of the lien of any Loan Document or (d) the ability of Grantor to perform any obligations under any Loan Document.

"Maturity", when used with respect to the Note, shall mean the Maturity Date set forth in the Note or such other date pursuant to the Note on which the final payment of principal, and premium, if any, on the Note becomes due and payable as therein or herein provided, whether at Stated Maturity or by declaration of acceleration, or otherwise.

"Maturity Date" shall mean the "Maturity Date" as defined in the Note.

"Mez Loan" shall mean a loan which is consented to in writing by Lender, which consent shall not unreasonably be withheld if the following conditions are satisfied to Lender's

satisfaction: (a) receipt by Lender of an executed intercreditor agreement, in form and substance acceptable to Lender, between the lender of the proposed mezzanine loan and Lender; (b) receipt of written confirmation from each Rating Agency that any rating issued by the Rating Agency in connection with a Securitization will not, as a result of the proposed mezzanine loan, be downgraded from the then current ratings thereof, qualified or withdrawn; (c) a loan-to-value ratio (calculated based upon the aggregate of the Principal Amount plus the maximum principal amount of the proposed mezzanine loan and based upon an "as is" appraised value as set forth in an MAI appraisal in form and substance and prepared by a Person acceptable to Lender) and a debt service coverage, in each case as determined by Lender in its reasonable discretion utilizing its then current underwriting standards, of 80% or lower and **[1.__:00]** or greater, respectively, which is evidenced or to be evidenced by a promissory note executed by a direct or indirect owner of Grantor, secured by, among other things, a first priority pledge of the direct or indirect ownership interest in Grantor pursuant to loan documentation reasonably acceptable to Lender which shall provide, among other things, that such loan matures no earlier than the Maturity Date unless the proposed mezzanine loan fully amortizes during its term; (d) no Event of Default is then existing, (e) if the proposed mezzanine loan bears interest as a floating rate of interest the borrower thereunder has purchased an interest rate cap agreement in the amount of the principal balance of the proposed mezzanine loan with a strike price reasonably acceptable to Lender and a counterparty having a long-term unsecured debt rating from each Rating Agency of not less than "A" (or its equivalent) and (f) payment of any costs and expenses incurred by Lender in connection with the Mez Loan including, without limitation, reasonable attorneys fees and disbursements and any costs of the Rating Agency. In the event that the Mez Loan does not close as of the Closing Date, (a) the lender of the proposed mezzanine loan must be approved by Lender, which approval shall not be unreasonably withheld, if the lender of the proposed mezzanine loan is a "qualified transferee", as such term is defined in the form intercreditor agreement attached as Appendix VI to the U.S. CMBS Legal and Structured Finance Criteria published by Standard & Poor's dated May 1, 2003.

"Monthly Debt Service Payment" shall mean a monthly payment of principal and interest in an amount equal to that which is required pursuant to the Note.

"Multiemployer Plan" shall mean a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been, or were required to have been, made by Grantor, Guarantor or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Net Capital Expenditures" shall mean for any period the amount by which Capital Expenditures during such period exceed reimbursements for such items during such period from any fund established pursuant to the Loan Documents.

"Net Operating Income" shall mean in each Fiscal Year or portion thereof during the term hereof, Operating Income less Operating Expenses.

"Net Proceeds" shall mean the excess of (a)(i) the purchase price (at foreclosure or otherwise) actually received by Lender with respect to the Property as a result of the exercise by Lender of its rights, powers, privileges and other remedies after the occurrence of an Event of Default, or (ii) in the event that Lender (or Lender's nominee) is the purchaser at foreclosure by

credit bid, then the amount of such credit bid, in either case, over (b) all costs and expenses, including, without limitation, all attorneys' fees and disbursements and any brokerage fees, if applicable, incurred by Lender in connection with the exercise of such remedies, including the sale of such Property after a foreclosure against the Property.

"Note" shall have the meaning set forth in the Recitals hereto.

"O&M Operative Period" shall mean the period of time (a) commencing upon the determination by Lender that the Aggregate Debt Service Coverage (tested quarterly except during the continuance of an O&M Operative Period, in which event the Aggregate Debt Service Coverage shall be tested monthly and shall be calculated based upon information contained in the reports furnished to Lender pursuant to Section 2.09 hereof) is less than 1.10:1 for each of the prior two (2) calendar quarters (but assuming for the purposes of this definition, a level monthly payment based on a thirty (30) year amortization schedule and the Interest Rate during any interest-only period under the Note) and (b) terminating on the Payment Date next succeeding the date upon which Lender determines that the Aggregate Debt Service Coverage for two (2) consecutive calendar quarters is 1.20:1 or greater. Notwithstanding the foregoing, the Aggregate Debt Service Coverage shall not be tested for the purpose of determining whether an O&M Operative Period exists prior to the Payment Date occurring in March, 2007.

"OFAC List" shall mean the list of specially designated nationals and blocked persons subject to financial sanctions that is maintained by the U.S. Treasury Department, Office of Foreign Assets Control and accessible through the internet website www.treas.gov/ofac/t11sdn.pdf.

"Officer's Certificate" shall mean a certificate delivered to Lender by Grantor which is signed on behalf of Grantor by an authorized representative of Grantor and which states that the items set forth in such certificate are true, accurate and complete in all respects.

"Operating Expenses" shall mean, in each Fiscal Year or portion thereof during the term hereof, all expenses directly attributable to the operation, repair and/or maintenance of the Property and/or any fixtures, furniture and/or equipment located at the Premises and used in connection therewith including, without limitation, (a) Impositions, (b) insurance premiums, (c) management fees, whether or not actually paid, equal to the greater of the actual management fees and three percent (3%) of annual Operating Income due under the Leases and (d) costs attributable to the operation, repair and maintenance of the systems for heating, ventilating and air conditioning the Improvements and actually paid for by Grantor. Operating Expenses shall not include interest, principal and premium, if any, due under the Note or otherwise in connection with the Debt, income taxes, extraordinary capital improvement costs, any non-cash charge or expense such as depreciation or amortization or any item of expense otherwise includable in Operating Expenses which is paid directly by any tenant except real estate taxes paid directly to any taxing authority by any tenant.

"Operating Income" shall mean, in each Fiscal Year or portion thereof during the term hereof, all revenue derived by Grantor arising from the Property including, without limitation, room revenues, vending machines revenues, beverage revenues, food revenues, and packaging

revenues, rental revenues (whether denominated as basic rent, additional rent, escalation payments, electrical payments or otherwise) and other fees and charges payable pursuant to Leases or otherwise in connection with the Property, and business interruption, rent or other similar insurance proceeds. Operating Income shall not include (a) Insurance Proceeds (other than proceeds of rent, business interruption or other similar insurance allocable to the applicable period) and Condemnation Proceeds (other than Condemnation Proceeds arising from a temporary taking or the use and occupancy of all or part of the applicable Property allocable to the applicable period), or interest accrued on such Condemnation Proceeds, (b) proceeds of any financing, (c) proceeds of any sale, exchange or transfer of the Property or any part thereof or interest therein, (d) capital contributions or loans to Grantor or an Affiliate of Grantor, (e) any item of income otherwise includable in Operating Income but paid directly by any tenant to a Person other than Grantor except for real estate taxes paid directly to any taxing authority by any tenant, (f) any other extraordinary, non-recurring revenues, (g) Rent paid by or on behalf of any lessee under an Operating Lease or Space Lease which is the subject of any proceeding or action relating to its bankruptcy, reorganization or other arrangement pursuant to the Bankruptcy Code or any similar federal or state law or which has been adjudicated a bankrupt or insolvent unless such Operating Lease or Space Lease, as applicable, has been affirmed by the trustee in such proceeding or action, (h) Rent paid by or on behalf of any lessee under a Lease the demised premises of which are not occupied either by such lessee or by a sublessee thereof; (i) Rent paid by or on behalf of any lessee under a Lease in whole or partial consideration for the termination of any Lease, or (j) sales tax rebates from any Governmental Authority.

"Operating Lease" shall mean the Lease of the Property or any other agreement (other than the Management Agreement) pursuant to which a Person assumes responsibility for the operation and management of the Property, as the same may be amended from time to time.

"Operating Tenant" shall mean the tenant under the Operating Lease and its successors and assigns.

"Operation and Maintenance Expense Escrow Account" shall mean the Escrow Account maintained pursuant to Section 5.09 hereof relating to the payment of Operating Expenses (exclusive of Basic Carrying Costs).

"Operation and Maintenance Expense Sub-Account" shall mean the Sub-Account of the Central Account established pursuant to Section 5.02 hereof into which sums allocated for the payment of Cash Expenses, Net Capital Expenditures and approved Extraordinary Expenses shall be deposited.

"Pad Owners" shall mean any owner of any fee interest in property contiguous to or surrounded by the Property who has entered into or is subject to a reciprocal easement agreement or other agreement or agreements with Grantor either (a) in connection with an existing or potential improvement on such property or (b) relating to or affecting the Property.

"Payment Date" shall mean, with respect to each month, the first (1st) calendar day in such month, or if such day is not a Business Day, the next following Business Day.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established under ERISA, or any successor thereto.

"Permitted Encumbrances" shall have the meaning set forth in Section 2.05(a) hereof.

"Person" shall mean any individual, corporation, limited liability company, partnership, joint venture, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

"Plan" shall mean an employee benefit or other plan established or maintained by Grantor, Guarantor or any ERISA Affiliate during the five-year period ended prior to the date of this Security Instrument or to which Grantor, Guarantor or any ERISA Affiliate makes, is obligated to make or has, within the five year period ended prior to the date of this Security Instrument, been required to make contributions (whether or not covered by Title IV of ERISA or Section 302 of ERISA or Section 401(a) or 412 of the Code), other than a Multiemployer Plan.

"Premises" shall have the meaning set forth in granting clause (a) of this Security Instrument.

"Principal Amount" shall mean the Loan Amount as such amount may be reduced from time to time pursuant to the terms of this Security Instrument, the Note or the other Loan Documents.

"Principal Payments" shall mean all payments of principal made pursuant to the terms of the Note.

"Prohibited Person" shall mean any Person and/or any Affiliate thereof identified on the OFAC List or any other Person or foreign country or agency thereof with whom a U.S. Person may not conduct business or transactions by prohibition of Federal law or Executive Order of the President of the United States of America.

"Property" shall have the meaning set forth in the granting clauses of this Security Instrument.

"Property Agreements" shall mean all agreements, grants of easements and/or rights-of-way, reciprocal easement agreements, permits, declarations of covenants, conditions and restrictions, disposition and development agreements, planned unit development agreements, parking agreements, party wall agreements or other instruments affecting the Property, including, without limitation any agreements with Pad Owners, but not including any brokerage agreements, management agreements, service contracts, Space Leases or the Loan Documents.

"Property Available Cash" shall mean all Rent less all Operating Expenses which are to be transferred to the Grantor Account during an O&M Operative Period as set forth in the Approved Budget.

"Qualified Transferee" shall mean any of the following Persons:

(a) a pension fund, pension trust or pension account that immediately prior to such transfer owns, directly or indirectly, total gross real estate assets of at least $1,000,000,000;

(b) a pension fund advisor who (i) immediately prior to such transfer, Controls, directly or indirectly, at least $1,000,000,000 of total gross real estate assets and (ii) is acting on behalf of one or more pension funds that, in the aggregate, satisfy the requirements of clause (a) of this definition;

(c) an insurance company which is subject to supervision by the insurance commissioner, or a similar official or agency, of a state or territory of the United States (including the District of Columbia) (i) with a net worth, determined as of a date no more than six (6) months prior to the date of the transfer of at least $500,000,000 and (ii) which, immediately prior to such transfer, controls, directly or indirectly, total gross real estate assets of at least $1,000,000,000;

(d) a corporation organized under the banking laws of the United States or any state or territory of the United States (including the District of Columbia) (i) with, immediately prior to such transfer, a combined capital and surplus of at least $250,000,000 or $200,000,000 if the outstanding principal balance of the Loan has been reduced to half of what it was as of the Closing Date and (ii) which, immediately prior to such transfer, controls, directly or indirectly total gross real estate assets of at least $500,000,000 or $400,000,000 if the outstanding principal balance of the Loan has been reduced to half of what it was as of the Closing Date; or

(e) any Person (i) with a long-term unsecured debt rating from the rating agencies of "BBB+" (or its equivalent) or (ii) who (x) owns or operates at least ten (10) properties (exclusive of the Cross-collateralized Properties) of a type, quality and size similar to the Cross-collateralized Properties totaling in the aggregate no less than 3,000 hotel rooms (exclusive of the Cross-collateralized Properties), (y) has a net worth, determined as of a date no more than six (6) months prior to the date of such transfer, of at least $250,000,000 or $200,000,000 if the outstanding principal balance of the Loan has been reduced to half of what it was as of the Closing Date and (z) immediately prior to such transfer, Controls, directly or indirectly, total gross real estate assets of at least $500,000,000 or $400,000,000 if the outstanding principal balance of the Loan has been reduced to half of what it was as of the Closing Date, provided such Person is reasonably acceptable to Lender based upon, among other things, its credit history and general reputation;

in each event (i) with respect to which Lender shall have received information satisfactory to it confirming that neither the proposed Qualified Transferee nor any Affiliate of the proposed Qualified Transferee is a Prohibited Person or would, if such Person assumes the Loan or obtains an interest in any Cross-collateralized Borrower, cause Lender to be in violation of Legal Requirements and (ii) with respect to which such Person and its property manager shall have sufficient experience in the ownership and management of properties similar to the Cross-collateralized Properties, as determined by Lender in its reasonable discretion, and Lender shall

have been provided with reasonable evidence thereof (and Lender reserves the right to approve the proposed transferee without approving the substitution of the Property Manager).

"Rating Agency" shall mean each of Standard & Poor's Ratings Services, a division of The McGraw-Hill Company, Inc. ("Standard & Poor's"), Fitch, Inc., and Moody's Investors Service, Inc. ("Moody's") and any successor to any of them; provided, however, that at any time after a Securitization, "Rating Agency" shall mean those of the foregoing rating agencies that from time to time rate the securities issued in connection with such Securitization.

"Real Estate Taxes" shall mean all real estate taxes of every character in respect of the Property (including all interest and penalties thereon), which at any time prior to, during or in respect of the term hereof may be assessed or imposed on or in respect of or be a lien upon the Property or any part thereof or any estate, right, title or interest therein.

"Realty" shall have the meaning set forth in Section 2.05(b) hereof.

"Recurring Replacement Expenditures" shall mean expenditures related to capital repairs, replacements and improvements performed at the Property from time to time.

"Recurring Replacement Reserve Monthly Installment" shall mean the amount per month set forth on **Exhibit B** attached hereto and made a part hereof (the "Initial Recurring Installments") until the end of the first (1st) Loan Year and an amount per month in each subsequent Loan Year or portion thereof occurring prior to the Maturity Date equal to the Replacement Reserve Percentage multiplied by the total revenues of the Property for the prior Loan Year divided by twelve (12). Notwithstanding the foregoing, if Grantor is depositing a sum with Manager on a monthly basis pursuant to the Management Agreement to be used for the payment of the Recurring Replacement Expenditures, Lender has a perfected first priority security interest in the account in which such sums are deposited and Grantor delivers to Lender proof the Recurring Replacement Expenditures are paid not less than ten (10) Business Days prior to the date upon which they are due and payable, the Recurring Replacement Reserve Monthly Installment shall be $0.

"Recurring Replacement Reserve Escrow Account" shall mean the Escrow Account maintained pursuant to Section 5.08 hereof relating to the payment of Recurring Replacement Expenditures.

"Recurring Replacement Reserve Sub-Account" shall mean the Sub-Account of the Central Account established pursuant to Section 5.02 hereof into which the Recurring Replacement Reserve Monthly Installment shall be deposited.

"Regulation AB" shall mean Regulation AB under the Securities Act and the Securities Exchange Act of 1934 (as amended).

"Release" shall have the meaning set forth in Section 15.02 hereof.

"Release Price" shall have the meaning set forth in Section 15.02 hereof.

"Release Price Percentage" shall mean 120% with respect to the ten (10) largest Cross-collateralized Properties (based on Initial Allocated Loan Amount as set forth in the Cross-collateralization Agreement and, with respect to the other Cross-collateralized Properties, the following:

Aggregate of Loan Amount of Loan Prepaid (inclusive of the Allocated Loan Amount with respect to any Cross-collateralized property which is the subject of a release but exclusive of amounts for the Cross-collateralized Properties set forth above)	**Release Price Percentage**
0 - 5%	105%
6 - 15%	110%
16 - 20%	115%
21 - 100%	120%

"Rent Account" shall mean an Eligible Account maintained in a bank acceptable to Lender in the joint names of Grantor and/or Operating Tenant and Lender or such other name as Lender may designate in writing.

"Rents" shall have the meaning set forth in granting clause (f) of this Security Instrument.

"Rent Roll" shall have the meaning set forth in Section 2.05 (o) hereof.

"Replacement Reserve Percentage" shall have the meaning set forth on **Exhibit B** attached hereto and made a part hereof.

"Required Debt Service Coverage" shall mean a Debt Service Coverage of not less than 1.2:1.

"Required Debt Service Payment" shall mean, as of any Payment Date, the amount of interest and principal then due and payable pursuant to the Note, together with any other sums due thereunder, including, without limitation, any prepayments required to be made or for which notice has been given under this Security Instrument, Default Rate Interest and premium, if any, paid in accordance therewith.

"Required Engineering Work" shall mean the immediate engineering and/or environmental remediation work set forth on **Exhibit D** attached hereto and made a part hereof.

"Retention Amount" shall have the meaning set forth in Section 3.04(b)(vii) hereof.

"RevPAR" shall mean the average revenues per available room per day.

"RevPAR Yield Index" shall mean the percentage amount determined by dividing the RevPAR of the Property by the RevPAR of the Property's Competitive Set as determined by Smith Travel Research ("STR") or if STR is no longer publishing, a successor reasonably acceptable to Lender.

"Scheduled Defeasance Payments" shall mean:

(a) with respect to a defeasance of the Loan in whole, payments on or prior to, but as close as possible to (i) each scheduled Payment Date, after the date of defeasance and through and including the Lockout Expiration Date, upon which interest payments or interest and Principal Payments are required under the Loan Documents and in amounts equal to the scheduled payments due on such dates under the Loan Documents and (ii) the Lockout Expiration Date, of the Principal Amount and any accrued and unpaid interest thereon; or

(b) with respect to any defeasance of the Loan in part, payments on or prior to, but as close as possible to, (i) each scheduled Payment Date after the date of defeasance through and including the Lockout Expiration Date, of a proportionate share (based on the percentage of outstanding principal prior to the defeasance represented by the amount of principal defeased) of the monthly installments of principal and interest due on such dates under the Loan Documents and (ii) the Lockout Expiration Date, of the unpaid portion of the portion of the Principal Amount so defeased and any accrued and unpaid interest thereon.

(c) with respect to any defeasance of the Loan in part which is made in connection with a Release pursuant to Section 15.02 hereof, payments on or prior to, but as close as possible to, (i) each scheduled Payment Date after the date of defeasance through and including the Lockout Expiration Date, of a proportionate share (based on the percentage of outstanding principal prior to the defeasance represented by the Release Price) of the monthly installments of principal and interest due on such dates under the Loan Documents and (ii) the Lockout Expiration Date, of the Release Price and any accrued and unpaid interest thereon.

"Securities Act" shall mean the Securities Act of 1933, as the same shall be amended from time to time.

"Securitization" shall mean a public or private offering of securities by Lender or any of its Affiliates or their respective successors and assigns which are collateralized, in whole or in part, by this Security Instrument.

"Security Agreement" shall have the meaning set forth in Section 15.01 hereof.

"Security Deposit Account" shall have the meaning set forth in Section 5.01 hereof.

"Security Instrument" shall mean this Security Instrument as originally executed or as it may hereafter from time to time be supplemented, amended, modified or extended by one or more indentures supplemental hereto.

"Significant Obligor" shall have the meaning set forth in Item 1101(k) of Regulation AB.

"Single Purpose Entity" shall mean a corporation, partnership, joint venture, limited liability company, trust or unincorporated association, which is formed or organized solely for the purpose of holding, directly, an ownership interest in the Property or, with respect to General Partner, holding an ownership interest in and managing a Person which holds an ownership interest in the Property, does not engage in any business unrelated to, with respect to Grantor, the Property and, with respect to General Partner, its interest in Grantor, does not have any assets other than those related to, with respect to Grantor, its interest in the Property and, with respect to General Partner, its interest in Grantor, or any indebtedness other than as permitted by this Security Instrument or the other Loan Documents, has its own separate books and records and has its own accounts (other than the Rent Account held with the Cross-collateralized Borrowers), in each case which are separate and apart from the books and records and accounts of any other Person, holds itself out as being a Person separate and apart from any other Person and which otherwise satisfies the criteria of the Rating Agency, as in effect on the Closing Date, for a special-purpose bankruptcy-remote entity.

"Solvent" shall mean, as to any Person, that (a) the sum of the assets of such Person, at a fair valuation, exceeds its liabilities, including contingent liabilities, (b) such Person has sufficient capital with which to conduct its business as presently conducted and as proposed to be conducted and (c) such Person has not incurred debts, and does not intend to incur debts, beyond its ability to pay such debts as they mature. For purposes of this definition, "debt" means any liability on a claim, and "claim" means (a) a right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (b) a right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured, or unsecured. With respect to any such contingent liabilities, such liabilities shall be computed in accordance with GAAP at the amount which, in light of all the facts and circumstances existing at the time, represents the amount which can reasonably be expected to become an actual or matured liability.

"Space Leases" shall mean any Lease or sublease thereunder (including, without limitation, any Major Space Lease) or any other agreement providing for the use and occupancy of a portion of the Property as the same may be amended, renewed or supplemented.

"State" shall mean any of the states that are members of the United States of America.

"Stated Maturity" when used with respect to the Note or any installment of interest and/or principal payment thereunder, shall mean the date specified in the Note as the fixed date on which a payment of all or any portion of principal and/or interest is due and payable.

"Sub-Accounts" shall have the meaning set forth in Section 5.02 hereof.

"Substantial Casualty" shall have the meaning set forth in Section 3.04 hereof.

"Taking" shall mean a condemnation or taking pursuant to the lawful exercise of the power of eminent domain.

"Transfer" shall mean the conveyance, assignment, sale, mortgaging, encumbrance, pledging, hypothecation, granting of a security interest in, granting of options with respect to, or other disposition (directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, and whether or not for consideration or of record) of all or any portion of any legal or beneficial interest (a) in all or any portion of the Property; (b) if Grantor is a corporation or, if Grantor is a partnership and any General Partner is a corporation, in the stock of Grantor or any General Partner; (c) in Grantor (or any trust of which Grantor is a trustee); or (d) if Grantor is a limited or general partnership, joint venture, limited liability company, trust, nominee trust, tenancy in common or other unincorporated form of business association or form of ownership interest, in any Person having a legal or beneficial ownership in Grantor, excluding, provided that no Default exists, any legal or beneficial interest in any constituent limited partner, if Grantor is a limited partnership, or in any non-managing member, if Grantor is a limited liability company, unless such interest would, or together with all other direct or indirect interests in Grantor which were previously transferred, aggregate 49% or more of the partnership or membership, as applicable, interest in Grantor or would result in any Person who, as of the Closing Date, did not own, directly or indirectly, 49% or more of the partnership or membership, as applicable, interest in Grantor, owning, directly or indirectly, 49% or more of the partnership or membership, as applicable, interest in Grantor and excluding any legal or beneficial interest in any General Partner unless such interest would, or together with all other direct or indirect interest in the General Partner which were previously transferred, aggregate 49% or more of the partnership or membership, as applicable, interest in the General Partner (or result in a change in control of the management of the General Partner from the individuals exercising such control immediately prior to the conveyance or other disposition of such legal or beneficial interest) and shall also include, without limitation to the foregoing, the following: an installment sales agreement wherein Grantor agrees to sell the Property or any part thereof or any interest therein for a price to be paid in installments; an agreement by Grantor leasing all or substantially all of the Property to one or more Persons pursuant to a single or related transactions, or a sale, assignment or other transfer of, or the grant of a security interest in, Grantor's right, title and interest in and to any Leases or any Rent; any instrument subjecting the Property to a condominium regime or transferring ownership to a cooperative corporation; and the dissolution or termination of Grantor or the merger

or consolidation of Grantor with any other Person. Notwithstanding the foregoing, "Transfer" shall not include transfers to Affiliates of RLJ Lodging Fund II, L.P., provided, in the event any such transfer results in a Person owning 49% or more of the direct or indirect interest in Grantor (whether in one or a series of transactions) which did not, prior to such transfer, own a 49% or greater direct or indirect interest in Grantor, Grantor shall deliver to Lender a substantive non-consolidation opinion in form and substance and from counsel reasonably acceptable to Lender relating to the substantive consolidation of

such transferee with Grantor and Grantor shall pay to Lender any reasonable out-of-pocket costs incurred by Lender in connection with such transfer.

"UCC" shall mean the Uniform Commercial Code as in effect on the date hereof in the State in which the Realty is located; provided, however, that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection or priority of the security interest in any item or portion of the collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State in which the Realty is located ("Other UCC State"), "UCC" means the Uniform Commercial Code as in effect in such Other UCC State for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or priority.

"Undefeased Note" shall have the meaning set forth in Section 15.01 hereof.

"Uniform System of Accounts" shall mean the Uniform System of Accounts for the Lodging Industry, 9th Revised Edition, Educational Institute of the American Hotel and Motel Association and Hotel Association of New York City (1996), as from time to time amended.

"Unscheduled Payments" shall mean (a) all Loss Proceeds that Grantor has elected or is required to apply to the repayment of the Debt pursuant to this Security Instrument, the Note or any other Loan Documents, (b) any funds representing a voluntary or involuntary principal prepayment other than scheduled Principal Payments and (c) any Net Proceeds.

"Use Requirements" shall mean any and all building codes, permits, certificates of occupancy or compliance, laws, regulations, or ordinances (including, without limitation, health, pollution, fire protection, medical and day-care facilities, waste product and sewage disposal regulations), restrictions of record, easements, reciprocal easements, declarations or other agreements affecting the use of the Property or any part thereof.

"Welfare Plan" shall mean an employee welfare benefit plan as defined in Section 3(1) of ERISA established or maintained by Grantor, Guarantor or any ERISA Affiliate or that covers any current or former employee of Grantor, Guarantor or any ERISA Affiliate.

"Work" shall have the meaning set forth in Section 3.04(a)(i) hereof.

ARTICLE II: REPRESENTATIONS, WARRANTIES AND COVENANTS OF BORROWER

Section 2.01. Payment of Debt. Grantor will pay the Debt at the time and in the manner provided in the Note and the other Loan Documents, all in lawful money of the United States of America in immediately available funds.

Section 2.02. Representations, Warranties and Covenants of Grantor. Grantor represents and warrants to and covenants with Lender:

(a) Organization and Authority. Grantor (i) is a limited liability company, general partnership, limited partnership or corporation, as the case may be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, (ii) has all requisite power and authority and all necessary licenses and permits to own and operate the Property and to carry on its business as now conducted and as presently proposed to be conducted and (iii) is duly qualified, authorized to do business and in good standing in the jurisdiction where the Property is located and in each other jurisdiction where the conduct of its business or the nature of its activities makes such qualification necessary. If Grantor is a limited liability company, limited partnership or general partnership, each general partner or managing member, as applicable, of Grantor which is a corporation is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation.

(b) Power. Grantor and, if applicable, each General Partner has full power and authority to execute, deliver and perform, as applicable, the Loan Documents to which it is a party, to make the borrowings thereunder, to execute and deliver the Note and to grant to Lender a first, prior, perfected and continuing lien on and security interest in the Property, subject only to the Permitted Encumbrances.

(c) Authorization of Borrowing. The execution, delivery and performance of the Loan Documents to which Grantor is a party, the making of the borrowings thereunder, the execution and delivery of the Note, the grant of the liens on the Property pursuant to the Loan Documents to which Grantor is a party and the consummation of the Loan are within the powers of Grantor and have been duly authorized by Grantor and, if applicable, the General Partners, by all requisite action (and Grantor hereby represents that no approval or action of any member, limited partner or shareholder, as applicable, of Grantor is required to authorize any of the Loan Documents to which Grantor is a party) and will constitute the legal, valid and binding obligation of Grantor, enforceable against Grantor in accordance with their terms, except as enforcement may be stayed or limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (whether considered in proceedings at law or in equity) and will not (i) violate any provision of its partnership agreement or partnership certificate or certificate of incorporation or by-laws, or operating agreement, certificate of formation or articles of organization, as applicable, or, to its knowledge, any law, judgment, order, rule or regulation of any court, arbitration panel or other Governmental Authority, domestic or foreign, or other Person affecting or binding upon Grantor or the Property, or (ii) violate any provision of any indenture, agreement, mortgage, deed of trust, contract or other instrument to which Grantor or, if applicable, any General Partner is a party or by which any of their respective property, assets or revenues are bound, or be in conflict with, result in an acceleration of any obligation or a breach of or constitute (with notice or lapse of time or both) a default or require any payment or prepayment under, any such indenture, agreement, mortgage, deed of trust, contract or other instrument, or (iii) result in the creation or imposition of any lien, except those in favor of Lender as provided in the Loan Documents to which it is a party.

(d) Consent. Neither Grantor nor, if applicable, any General Partner, is required to obtain any consent, approval or authorization from, or to file any declaration or

statement with, any Governmental Authority or other agency in connection with or as a condition to the execution, delivery or performance of this Security Instrument, the Note or the other Loan Documents which has not been so obtained or filed.

(e) Intentionally Omitted.

(f) Other Agreements. Grantor is not a party to nor is it otherwise bound by any agreements or instruments which, individually or in the aggregate, are reasonably likely to have a Material Adverse Effect. Neither Grantor nor, if applicable, any General Partner, is in violation of its organizational documents or other restriction or any agreement or instrument by which it is bound, or any judgment, decree, writ, injunction, order or award of any arbitrator, court or Governmental Authority, or any Legal Requirement, in each case, applicable to Grantor or the Property, except for such violations as would not, individually or in the aggregate, have a Material Adverse Effect.

(g) Maintenance of Existence. (i) Grantor is familiar with the criteria of the Rating Agency required to qualify as a special-purpose bankruptcy-remote entity and Grantor and, if applicable, each General Partner at all times since their formation have been duly formed and existing at all times has preserved and shall preserve and has kept and shall keep in full force and effect their existence as a Single Purpose Entity.

(ii) Grantor and, if applicable, each General Partner, at all times since their organization have complied, and will continue to comply, with the provisions of its certificate of limited partnership and agreement of limited partnership or certificate of incorporation and by-laws or articles of organization, certificate of formation and operating agreement, as applicable, and the laws of its jurisdiction of organization relating to partnerships, corporations or limited liability companies, as applicable.

(iii) Grantor and, if applicable, each General Partner have done or caused to be done and will do all things necessary to observe organizational formalities and preserve their existence and Grantor and, if applicable, each General Partner will not, without obtaining the prior written consent of Lender, amend, modify or otherwise change the certificate of limited partnership and agreement of limited partnership or certificate of incorporation and by-laws or articles of organization, certificate of formation and operating agreement, as applicable, or other organizational documents of Grantor and, if applicable, each General Partner.

(iv) Grantor and, if applicable, each General Partner, have at all times accurately maintained, and will continue to accurately maintain, their respective financial statements, accounting records and other partnership, company or corporate documents separate from those of any other Person and Grantor, have filed and will file its own tax returns or, if Grantor and/or, if applicable, General Partner is part of a consolidated group for purposes of filing tax returns, Grantor and, General Partner, as applicable, has been shown and will be shown as separate members of such group. Grantor and, if applicable, each General Partner have not at any time since their formation commingled, and will not commingle, their respective assets with those of any other Person other than another

Cross-collateralized Borrower and each has maintained and will maintain their assets in such a manner such that it will not be costly or difficult to segregate, ascertain or identify their individual assets from those of any other Person other than another Cross-collateralized Borrower. Grantor and, if applicable, each General Partner has not permitted and will not permit any Affiliate independent access to their bank accounts. Grantor and, if applicable, each General Partner have at all times since their formation accurately maintained and utilized, and will continue to accurately maintain and utilize, their own separate bank accounts, payroll and separate books of account, stationery, invoices and checks.

(v) Grantor and, if applicable, each General Partner, have at all times paid, and will continue to pay, their own liabilities from their own separate assets and each has allocated and charged and shall each allocate and charge fairly and reasonably any overhead which Grantor and, if applicable, any General Partner, shares with any other Person, including, without limitation, for office space and services performed by any employee of another Person.

(vi) Grantor and, if applicable, each General Partner, have at all times identified themselves, and will continue to identify themselves, in all dealings with the public, under their own names and as separate and distinct entities and shall correct any known misunderstanding regarding their status as separate and distinct entities. Grantor and, if applicable, each General Partner, have not at any time identified themselves, and will not identify themselves, as being a division of any other Person.

(vii) Grantor and, if applicable, each General Partner, have been at all times, and will continue to be, adequately capitalized in light of the nature of their respective businesses.

(viii) Grantor and, if applicable, each General Partner, (A) have not owned, do not own and will not own any assets or property other than, with respect to Grantor, the Property and any incidental personal property necessary for the ownership, management or operation of the Property and, with respect to General Partner, if applicable, its interest in Grantor, (B) have not engaged and will not engage in any business other than the ownership, management and operation of the Property or, with respect to General Partner, if applicable, its interest in Grantor, (C) have not incurred and will not incur any debt, secured or unsecured, direct or contingent (including guaranteeing any obligation), other than, with respect to Grantor, (X) the Loan and (Y) unsecured trade and operational debt which (1) is not evidenced by a note, (2) is incurred in the ordinary course of the operation of the Property, (3) does not exceed in the aggregate two percent (2%) of the Allocated Loan Amount and (4) is, unless being contested in accordance with the terms of this Security Instrument, paid prior to the earlier to occur of the forty-fifth (45th) day after the date incurred and the date when due, (D) have not pledged and will not pledge their assets for the benefit of any other Person, and (E) have not made and will not make any loans or advances to any Person (including any Affiliate).

(ix) Neither Grantor nor, if applicable, any General Partner will change its name or principal place of business without giving Lender not less than thirty (30) days prior written notice.

(x) Neither Grantor nor, if applicable, any General Partner has, and neither of such Persons will have, any subsidiaries (other than, with respect to General Partner, Grantor).

(xi) Grantor has preserved and maintained and will preserve and maintain its existence as a Delaware limited liability company or Delaware limited partnership, as applicable, and all material rights, privileges, tradenames and franchises. General Partner, if applicable, has preserved and maintained and will preserve and maintain its existence as a Delaware limited liability company or Delaware limited partnership, as applicable, and all material rights, privileges, tradenames and franchises.

(xii) Neither Grantor, nor, if applicable, any General Partner, will merge or consolidate with, or sell all or substantially all of its respective assets to any Person, or liquidate, wind up or dissolve itself (or suffer any liquidation, winding up or dissolution). Neither Grantor, nor, if applicable, any General Partner has acquired nor will acquire any business or assets from, or capital stock or other ownership interest of, or be a party to any acquisition of, any Person.

(xiii) Grantor and, if applicable, each General Partner, have not at any time since their formation assumed, guaranteed or held themselves out to be responsible for, and will not assume, guarantee or hold themselves out to be responsible for the liabilities or the decisions or actions respecting the daily business affairs of their partners, shareholders or members or any predecessor company, corporation or partnership, each as applicable, any Affiliates, or any other Persons other than another Cross-collateralized Borrower as joint and several borrowers under the Loan Documents. Grantor and, if applicable, each General Partner, have not at any time since their formation acquired, and will not acquire, obligations or securities of its partners or shareholders, members or any predecessor company, corporation or partnership, each as applicable, or any Affiliates (other than, with respect to General Partner, its interest in Grantor). Grantor and, if applicable, each General Partner, have not at any time since their formation made, and will not make, loans to its partners, members or shareholders or any predecessor company, corporation or partnership, each as applicable, or any Affiliates of any of such Persons. Grantor and, if applicable, each General Partner, have no known contingent liabilities nor do they have any material financial liabilities under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which such Person is a party or by which it is otherwise bound other than under the Loan Documents.

(xiv) Grantor and, if applicable, each General Partner, have not at any time since their formation entered into and were not a party to, and, will not enter into or be a party to, any transaction with its Affiliates, members, partners or shareholders, as applicable, or any Affiliates thereof except in the ordinary course of business of such

Person on terms which are no less favorable to such Person than would be obtained in a comparable arm's length transaction with an unrelated third party.

(xv) If Grantor is a limited partnership or a limited liability company, the General Partner shall be a corporation or limited liability company whose sole asset is its interest in Grantor and the General Partner will at all times comply, and will cause Grantor to comply, with each of the representations, warranties, and covenants contained in this Section 2.02(g) as if such representation, warranty or covenant was made directly by such General Partner.

(xvi) Grantor shall at all times cause there to be at least two duly appointed members of the board of directors or board of managers or other governing board or body, as applicable (each, an "Independent Director"), of, if Grantor is a corporation, Grantor, if Grantor is a limited partnership, of the General Partner, and if Grantor is a limited liability company, of Grantor, reasonably satisfactory to Lender who shall not have been at the time of such individual's appointment, and may not be or have been at any time (A) a shareholder, officer, director, attorney, counsel, partner, member or employee of Grantor or any of the foregoing Persons or Affiliates thereof, (B) a customer or creditor of, or supplier or service provider to, Grantor or any of its shareholders, partners, members or their Affiliates, (C) a member of the immediate family of any Person referred to in (A) or (B) above or (D) a Person Controlling, Controlled by or under common Control with any Person referred to in (A) through (C) above. A natural person who otherwise satisfies the foregoing definition except for being the Independent Director of a Single Purpose Entity Affiliated with Grantor or General Partner shall not be disqualified from serving as an Independent Director if such individual is at the time of initial appointment, or at any time while serving as the Independent Director, an Independent Director of a Single Purpose Entity Affiliated with Grantor or General Partner if such individual is an independent director provided by a nationally-recognized company that provides professional independent directors.

(xvii) Grantor and, if applicable, each General Partner, shall not cause or permit the board of directors or board of managers or other governing board or body, as applicable, of Grantor or, if applicable, each General Partner, to take any action which, under the terms of any certificate of incorporation, by-laws or articles of organization with respect to any common stock, requires a vote of the board of directors of Grantor, or, if applicable, the General Partner, unless at the time of such action there shall be at least two members who are Independent Directors.

(xviii) Grantor and, if applicable, each General Partner has paid and shall pay the salaries of their own employees and has maintained and shall maintain a sufficient number of employees in light of their contemplated business operations.

(xix) Grantor shall, and shall cause its Affiliates to, conduct its business so that the assumptions made with respect to Grantor and, if applicable, each General Partner, in that certain opinion letter relating to substantive non-consolidation dated the date hereof

(the "Insolvency Opinion") delivered in connection with the Loan shall be true and correct in all respects.

Notwithstanding anything to the contrary contained in this Section 2.02(g), provided Grantor is a Delaware single member limited liability company which satisfies the single purpose bankruptcy remote entity requirements of each Rating Agency relating to a single member limited liability company, the foregoing provisions of this Section 2.02(g) shall not apply to the General Partner.

(h) No Defaults. No Default or Event of Default has occurred and is continuing or would occur as a result of the consummation of the transactions contemplated by the Loan Documents. Grantor is not in default in the payment or performance of any of its Contractual Obligations in any respect.

(i) Consents and Approvals. Grantor and, if applicable, each General Partner, have obtained or made all necessary (i) consents, approvals and authorizations, and registrations and filings of or with all Governmental Authorities and (ii) consents, approvals, waivers and notifications of partners, stockholders, members, creditors, lessors and other nongovernmental Persons, in each case, which are required to be obtained or made by Grantor or, if applicable, the General Partner, in connection with the execution and delivery of, and the performance by Grantor of its obligations under, the Loan Documents.

(j) Investment Company Act Status, etc. Grantor is not (i) an "investment company," or a company "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (iii) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

(k) Compliance with Law. Grantor is in compliance in all material respects with all Legal Requirements to which it or the Property is subject, including, without limitation, all Environmental Statutes, the Occupational Safety and Health Act of 1970, the Americans with Disabilities Act and ERISA. No portion of the Property has been or will be purchased, improved, fixtured, equipped or furnished with proceeds of any illegal activity and, to the best of Grantor's knowledge, no illegal activities are being conducted at or from the Property.

(l) Financial Information. All financial data that has been delivered by Grantor to Lender (i) is true, complete and correct in all material respects, (ii) accurately represents the financial condition and results of operations of the Persons covered thereby as of the date on which the same shall have been furnished, and (iii) in the case of audited financial statements, has been prepared in accordance with GAAP and the Uniform System of Accounts (or such other accounting basis as is reasonably acceptable to Lender) throughout the periods covered thereby. As of the date hereof, neither Grantor nor, if applicable, any General Partner, has any contingent liability, liability for taxes or other unusual or forward commitment not reflected in such financial statements delivered to Lender. Since the date of the last financial statements delivered

by Grantor to Lender except as otherwise disclosed in such financial statements or notes thereto, there has been no change in the assets, liabilities or financial position of Grantor nor, if applicable, any General Partner, or in the results of operations of Grantor which would have a Material Adverse Effect. Neither Grantor nor, if applicable, any General Partner, has incurred any obligation or liability, contingent or otherwise not reflected in such financial statements which would have a Material Adverse Effect.

(m) Transaction Brokerage Fees. Grantor has not dealt with any financial advisors, brokers, underwriters, placement agents, agents or finders in connection with the transactions contemplated by this Security Instrument. All brokerage fees, commissions and other expenses payable in connection with the transactions contemplated by the Loan Documents have been paid in full by Grantor contemporaneously with the execution of the Loan Documents and the funding of the Loan. Grantor hereby agrees to indemnify and hold Lender harmless for, from and against any and all claims, liabilities, costs and expenses of any kind in any way relating to or arising from (i) a claim by any Person that such Person acted on behalf of Grantor in connection with the transactions contemplated herein or (ii) any breach of the foregoing representation. The provisions of this subsection (m) shall survive the repayment of the Debt.

(n) Federal Reserve Regulations. No part of the proceeds of the Loan will be used for the purpose of "purchasing" or "carrying" any "margin stock" within the meaning of Regulations T, U or X of the Board of Governors of the Federal Reserve System or for any other purpose which would be inconsistent with such Regulations T, U or X or any other Regulations of such Board of Governors, or for any purposes prohibited by Legal Requirements or by the terms and conditions of the Loan Documents.

(o) Pending Litigation. There are no actions, suits or proceedings pending or, to the best knowledge of Grantor, threatened against or affecting Grantor or the Property in any court or before any Governmental Authority which if adversely determined either individually or collectively has or is reasonably likely to have a Material Adverse Effect.

(p) Solvency; No Bankruptcy. Each of Grantor and, if applicable, the General Partner, (i) is and has at all times been Solvent and will remain Solvent immediately upon the consummation of the transactions contemplated by the Loan Documents and (ii) is free from bankruptcy, reorganization or arrangement proceedings or a general assignment for the benefit of creditors and is not contemplating the filing of a petition under any state or federal bankruptcy or insolvency laws or the liquidation of all or a major portion of such Person's assets or property and Grantor has no knowledge of any Person contemplating the filing of any such petition against it or, if applicable, the General Partner. None of the transactions contemplated hereby will be or have been made with an intent to hinder, delay or defraud any present or future creditors of Grantor and Grantor has received reasonably equivalent value in exchange for its obligations under the Loan Documents. Grantor's assets do not, and immediately upon consummation of the transaction contemplated in the Loan Documents will not, constitute unreasonably small capital to carry out its business as presently conducted or as proposed to be conducted. Grantor does not intend to, nor does it believe that it will, incur debts and liabilities beyond its ability to pay such debts as they may mature.

(q) Use of Proceeds. The proceeds of the Loan shall be applied by Grantor to, inter alia, (i) satisfy certain mortgage loans presently encumbering all or a part of the Property, (ii) purchase the Property or (iii) pay certain transaction costs incurred by Grantor in connection with the Loan. No portion of the proceeds of the Loan will be used for family, personal, agricultural or household use.

(r) Tax Filings. Grantor and, if applicable, each General Partner, have filed all federal, state and local tax returns required to be filed and have paid or made adequate provision for the payment of all federal, state and local taxes, charges and assessments payable by Grantor and, if applicable, the General Partners. Grantor and, if applicable, the General Partners, believe that their respective tax returns properly reflect the income and taxes of Grantor and said General Partner, if any, for the periods covered thereby, subject only to reasonable adjustments required by the Internal Revenue Service or other applicable tax authority upon audit.

(s) Not Foreign Person. Grantor is not a "foreign person" within the meaning of §1445(f)(3) of the Code.

(t) ERISA. (i) The assets of Grantor and Guarantor are not and will not become treated as "plan assets", whether by operation of law or under regulations promulgated under ERISA. If any Person having a legal or beneficial ownership interest in Grantor is using (or is deemed under ERISA to be using) "plan assets", Grantor will qualify as a "real estate operating company" within the meaning of 29 C.F.R. §2510.3-101(e) at all times that the Loan is outstanding. Each Plan and Welfare Plan, and, to the knowledge of Grantor, each Multiemployer Plan, is

in compliance in all material respects with, and has been administered in all material respects in compliance with, its terms and the applicable provisions of ERISA, the Code and any other applicable Legal Requirement, and no event or condition has occurred and is continuing as to which Grantor would be under an obligation to furnish a report to Lender under clause (ii)(A) of this Section. Other than an application for a favorable determination letter with respect to a Plan, there are no pending issues or claims before the Internal Revenue Service, the United States Department of Labor or any court of competent jurisdiction related to any Plan or Welfare Plan under which Grantor, Guarantor or any ERISA Affiliate, directly or indirectly (through an indemnification agreement or otherwise), could be subject to any material risk of liability under Section 409 or 502(i) of ERISA or Section 4975 of the Code. No Welfare Plan provides or will provide benefits, including, without limitation, death or medical benefits (whether or not insured) with respect to any current or former employee of Grantor, Guarantor or any ERISA Affiliate beyond his or her retirement or other termination of service other than (A) coverage mandated by applicable law, (B) death or disability benefits that have been fully provided for by fully paid up insurance or (C) severance benefits.

(ii) Grantor will furnish to Lender as soon as possible, and in any event within ten (10) days after Grantor knows or has reason to believe that any of the events or conditions specified below with respect to any Plan, Welfare Plan or Multiemployer Plan has occurred or exists, an Officer's Certificate setting forth details respecting such event or condition and the action, if any, that Grantor or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given

to PBGC (or any other relevant Governmental Authority) by Grantor or an ERISA Affiliate with respect to such event or condition, if such report or notice is required to be filed with the PBGC or any other relevant Governmental Authority:

(A) any reportable event, as defined in Section 4043 of ERISA and the regulations issued thereunder, with respect to a Plan, as to which PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within thirty (30) days of the occurrence of such event (provided that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA, including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code and of Section 302(e) of ERISA, shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code), and any request for a waiver under Section 412(d) of the Code for any Plan;

(B) the distribution under Section 4041 of ERISA of a notice of intent to terminate any Plan or any action taken by Grantor or an ERISA Affiliate to terminate any Plan;

(C) the institution by PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by Grantor or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by PBGC with respect to such Multiemployer Plan;

(D) the complete or partial withdrawal from a Multiemployer Plan by Grantor or any ERISA Affiliate that results in liability under Section 4201 or 4204 of ERISA (including the obligation to satisfy secondary liability as a result of a purchaser default) or the receipt by Grantor or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA;

(E) the institution of a proceeding by a fiduciary of any Multiemployer Plan against Grantor or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within thirty (30) days;

(F) the adoption of an amendment to any Plan that, pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA, would result in the loss of tax-exempt status of the trust of which such Plan is a part if Grantor or an ERISA Affiliate fails to timely provide security to the Plan in accordance with the provisions of said Sections; or

(G) the imposition of a lien or a security interest in connection with a Plan.

(iii) Grantor shall not knowingly engage in or permit any transaction in connection with which Grantor, Guarantor or any ERISA Affiliate could be subject to either a civil penalty or tax assessed pursuant to Section 502(i) or 502(l) of ERISA or Section 4975 of the Code, permit any Welfare Plan to provide benefits, including without limitation, medical benefits (whether or not insured), with respect to any current or former employee of Grantor, Guarantor or any ERISA Affiliate beyond his or her retirement or other termination of service other than (A) coverage mandated by applicable law, (B) death or disability benefits that have been fully provided for by paid up insurance or otherwise or (C) severance benefits, permit the assets of Grantor or Guarantor to become "plan assets", whether by operation of law or under regulations promulgated under ERISA or adopt, amend (except as may be required by applicable law) or increase the amount of any benefit or amount payable under, or permit any ERISA Affiliate to adopt, amend (except as may be required by applicable law) or increase the amount of any benefit or amount payable under, any employee benefit plan (including, without limitation, any employee welfare benefit plan) or other plan, policy or arrangement, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits expense to Grantor, Guarantor or any ERISA Affiliate.

(u) Labor Matters. No organized work stoppage or labor strike is pending or threatened by employees or other laborers at the Property and neither Grantor nor Manager (i) is involved in or threatened with any labor dispute, grievance or litigation relating to labor matters involving any employees and other laborers at the Property, including, without limitation, violation of any federal, state or local labor, safety or employment laws (domestic or foreign) and/or charges of unfair labor practices or discrimination complaints; (ii) has engaged in any unfair labor practices within the meaning of the National Labor Relations Act or the Railway Labor Act; or (iii) is a party to, or bound by, any collective bargaining agreement or union contract with respect to employees and other laborers at the Property and no such agreement or contract is currently being negotiated by Grantor, Manager or any of their Affiliates.

(v) Grantor's Legal Status. Grantor's exact legal name, as is indicated on the signature page hereto, organizational identification number and place of business or, if more than one, its chief executive office, as well as Grantor's mailing address, if different, as identified by Grantor to Lender and contained in this Security Instrument, are true, accurate and complete. Grantor (i) will not change its name, its place of business or, if more than one place of business, its chief executive office, or its mailing address or organizational identification number if it has one without giving Lender at least thirty (30) days prior written notice of such change, (ii) if Grantor does not have an organizational identification number and later obtains one, Grantor shall promptly notify Lender of such organizational identification number and (iii) Grantor will not change its type of organization, jurisdiction of organization or other legal structure.

(w) Compliance with Anti-Terrorism, Embargo and Anti-Money Laundering Laws. (i) None of Grantor, General Partner, any Guarantor, or any Person who owns any equity interest in or Controls Grantor, General Partner or any Guarantor currently is identified on the OFAC List or otherwise qualifies as a Prohibited Person, and Grantor has implemented procedures,

approved by Grantor and, if applicable, General Partner, to ensure that no Person who now or hereafter owns an equity interest in Grantor or General Partner is a Prohibited Person or Controlled by a Prohibited Person, (ii) no proceeds of the Loan will be used to fund any operations in, finance any investments or activities in or make any payments to, Prohibited Persons, and (iii) none of Grantor, General Partner, or any Guarantor is in violation of any Legal Requirements relating to anti-money laundering or anti-terrorism, including, without limitation, Legal Requirements related to transacting business with Prohibited Persons or the requirements of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, U.S. Public Law 107-56, and the related regulations issued thereunder, including temporary regulations, all as amended from time to time. No tenant at the Property currently is identified on the OFAC List or otherwise qualifies as a Prohibited Person, and, to the best of Grantor's knowledge, no tenant at the Property is owned or Controlled by a Prohibited Person. Grantor has determined that Manager has implemented procedures, approved by Grantor, to ensure that no tenant at the Property is a Prohibited Person or owned or Controlled by a Prohibited Person.

Section 2.03. Further Acts, etc. Grantor will, at the cost of Grantor, and without expense to Lender, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages or deeds of trust, as applicable, assignments, notices of assignments, transfers and assurances as Lender shall, from time to time, reasonably require for the better assuring, conveying, assigning, transferring, and confirming unto Lender the property and rights hereby mortgaged, given, granted, bargained, sold, alienated, enfeoffed, conveyed, confirmed, pledged, assigned and hypothecated, or which Grantor may be or may hereafter become bound to convey or assign to Lender, or for carrying out or facilitating the performance of the terms of this Security Instrument or for filing, registering or recording this Security Instrument and, within five (5) Business Days of written demand, will execute and deliver and hereby authorizes

Lender to execute in the name of Grantor or without the signature of Grantor to the extent Lender may lawfully do so, one or more financing statements, chattel mortgages or comparable security instruments to evidence more effectively the lien hereof upon the Property. Grantor grants to Lender an irrevocable power of attorney coupled with an interest for the purpose of protecting, perfecting, preserving and realizing upon the interests granted pursuant to this Security Instrument and to effect the intent hereof, all as fully and effectually as Grantor might or could do; and Grantor hereby ratifies all that Lender shall lawfully do or cause to be done by virtue hereof; provided, however, that Lender shall not exercise such power of attorney unless and until Grantor fails to take the required action within the five (5) Business Day time period stated above unless the failure to so exercise, could, in Lender's reasonable judgment, result in a Material Adverse Effect. Upon (a) receipt of an affidavit of an officer of Lender as to the loss, theft, destruction or mutilation of the Note or any other Loan Document which is not of public record, (b) receipt of an indemnity of Lender related to losses resulting solely from the issuance of a replacement note or other applicable Loan Document and (c) in the case of any such mutilation, upon surrender and cancellation of such Note or other applicable Loan Document, Grantor will issue, in lieu thereof, a replacement Note or other applicable Loan Document, dated the date of such lost, stolen, destroyed or mutilated Note or other Loan Document in the same principal amount thereof and otherwise of like tenor.

Section 2.04. Recording of Security Instrument, etc. Grantor forthwith upon the execution and delivery of this Security Instrument and thereafter, from time to time, will cause this Security Instrument, and any security instrument creating a lien or security interest or evidencing the lien hereof upon the Property and each instrument of further assurance to be filed, registered or recorded in such manner and in such places as may be required by any present or future law in order to publish notice of and fully protect the lien or security interest hereof upon, and the interest of Lender in, the Property. Grantor will pay all filing, registration or recording fees, and all expenses incident to the preparation, execution and acknowledgment of this Security Instrument, any mortgage or deed of trust, as applicable, supplemental hereto, any security instrument with respect to the Property and any instrument of further assurance, and all federal, state, county and municipal, taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Security Instrument, any mortgage or deed of trust, as applicable, supplemental hereto, any security instrument with respect to the Property or any instrument of further assurance, except where prohibited by law to do so, in which event Lender may declare the Debt to be immediately due and payable. Grantor shall hold harmless and indemnify Lender and its successors and assigns, against any liability incurred as a result of the imposition of any tax on the making and recording of this Security Instrument.

Section 2.05. Representations, Warranties and Covenants Relating to the Property. Grantor represents and warrants to and covenants with Lender with respect to the Property as follows:

(a) Lien Priority. This Security Instrument is a valid and enforceable first lien on the Property, free and clear of all encumbrances and liens having priority over the lien of this Security Instrument, except for the items set forth as exceptions to or subordinate matters in the title insurance policy insuring the lien of this Security Instrument, none of which, individually or in the aggregate, materially interfere with the benefits of the security intended to be provided by this Security Instrument, materially affect the value or marketability of the Property, impair the use or operation of the Property for the use currently being made thereof or impair Grantor's ability to pay its obligations in a timely manner (such items being the "Permitted Encumbrances").

(b) Title. Grantor has, subject only to the Permitted Encumbrances, good, insurable and marketable fee simple title to the Premises, Improvements and Fixtures (collectively, the "Realty") and to all easements and rights benefiting the Realty and has the right, power and authority to mortgage, encumber, give, grant, bargain, sell, alien, enfeoff, convey, confirm, pledge, assign, and hypothecate the Property. Grantor will preserve its interest in and title to the Property and will forever warrant and defend the same to Lender against any and all claims made by, through or under Grantor and will forever warrant and defend the validity and priority of the lien and security interest created herein against the claims of all Persons whomsoever claiming by, through or under Grantor. The foregoing warranty of title shall survive the foreclosure of this Security Instrument and shall inure to the benefit of and be enforceable by Lender in the event Lender acquires title to the Property pursuant to any foreclosure. In addition, there are no outstanding options or rights of first refusal to purchase the Property or Grantor's ownership thereof.

(c) Taxes and Impositions. All taxes and other Impositions and governmental assessments due and owing in respect of, and affecting, the Property have been paid. Grantor has paid all Impositions which constitute special governmental assessments in full, except for those assessments which are permitted by applicable Legal Requirements to be paid in installments, in which case all installments which are due and payable have been paid in full. There are no pending, or to Grantor's best knowledge, proposed special or other assessments for public improvements or otherwise affecting the Property, nor are there any contemplated improvements to the Property that may result in such special or other assessments.

(d) Casualty; Flood Zone. The Realty is in good repair and free and clear of any damage, destruction or casualty (whether or not covered by insurance) that would materially affect the value of the Realty or the use for which the Realty was intended, there exists no structural or other material defects or damages in or to the Property and Grantor has not received any written notice from any insurance company or bonding company of any material defect or inadequacies in the Property, or any part thereof, which would materially and adversely affect the insurability of the same or cause the imposition of extraordinary premiums or charges thereon or of any termination or threatened termination of any policy of insurance or bond. No portion of the Premises is located in an "area of special flood hazard," as that term is defined in the regulations of the Federal Insurance Administration, Department of Housing and Urban Development, under the National Flood Insurance Act of 1968, as amended (24 CFR § 1909.1) or Grantor has obtained the flood insurance required by Section 3.01(a)(vi) hereof. The Premises either does not lie in a 100 year flood plain that has been identified by the Secretary of Housing and Urban Development or any other Governmental Authority or, if it does, Grantor has obtained the flood insurance required by Section 3.01(a)(vi) hereof.

(e) Completion; Encroachment. To the best of Grantor's knowledge, all Improvements necessary for the efficient use and operation of the Premises, including, without limitation, all Improvements which were included for purposes of determining the appraised value of the Property in the Appraisal, have been completed and, except as set forth in the title insurance policy insuring the lien of this Security Instrument or the survey delivered to Lender in connection with the origination of the Loan, none of said Improvements lie outside the boundaries and building restriction lines of the Premises. Except as set forth in the title insurance policy insuring the lien of this Security Instrument, no improvements on adjoining properties encroach upon the Premises.

(f) Separate Lot. The Premises are taxed separately without regard to any other real estate and constitute a legally subdivided lot under all applicable Legal Requirements (or, if not subdivided, no subdivision or platting of the Premises is required under applicable Legal Requirements), and for all purposes may be mortgaged, encumbered, conveyed or otherwise dealt with as an independent parcel. The Property does not benefit from any tax abatement or exemption.

(g) Use. The existence of all Improvements, the present use and operation thereof and the access of the Premises and the Improvements to all of the utilities and other items referred to in paragraph (k) below are in compliance in all material respects with all Leases

affecting the Property and all applicable Legal Requirements, including, without limitation, Environmental Statutes, Development Laws and Use Requirements. Grantor has not received any notice from any Governmental Authority alleging any uncured violation relating to the Property of any applicable Legal Requirements.

(h) Licenses and Permits. Grantor currently holds and will continue to hold all certificates of occupancy, licenses, registrations, permits, consents, franchises and approvals of any Governmental Authority or any other Person which are material for the lawful occupancy and operation of the Realty or which are material to the ownership or operation of the Property or the conduct of Grantor's business. All such certificates of occupancy, licenses, registrations, permits, consents, franchises and approvals are current and in full force and effect.

(i) Environmental Matters. Grantor has received and reviewed the Environmental Report and has no reason to believe that the Environmental Report contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein or herein, in light of the circumstances under which such statements were made, not misleading.

(j) Property Proceedings. There are no actions, suits or proceedings pending or threatened in any court or before any Governmental Authority or arbitration board or tribunal (i) relating to (A) the zoning of the Premises or any part thereof, (B) any certificates of occupancy, licenses, registrations, permits, consents or approvals issued with respect to the Property or any part thereof, (C) the condemnation of the Property or any part thereof, or (D) the condemnation or relocation of any roadways abutting the Premises required for access or the denial or limitation of access to the Premises or any part thereof from any point of access to the Premises, (ii) asserting that (A) any such zoning, certificates of occupancy, licenses, registrations, permits, consents and/or approvals do not permit the operation of any material portion of the Realty as presently being conducted, (B) any material improvements located on the Property or any part thereof cannot be located thereon or operated with their intended use or (C) the operation of the Property or any part thereof is in violation in any material respect of any Environmental Statutes, Development Laws or other Legal Requirements or Space Leases or Property Agreements or (iii) which might (A) affect the validity or priority of any Loan Document or (B) have a Material Adverse Effect. Grantor is not aware of any facts or circumstances which may give rise to any actions, suits or proceedings described in the preceding sentence.

(k) Utilities. The Premises has all necessary legal access to water, gas and electrical supply, storm and sanitary sewerage facilities, other required public utilities (with respect to each of the aforementioned items, by means of either a direct connection to the source of such utilities or through connections available on publicly dedicated roadways directly abutting the Premises or through permanent insurable easements benefiting the Premises), fire and police protection, parking, and means of direct access between the Premises and public highways over recognized curb cuts (or such access to public highways is through private roadways which may be used for ingress and egress pursuant to permanent insurable easements).

(l) Mechanics' Liens. The Property is free and clear of any mechanics' liens or liens in the nature thereof, and no rights are outstanding that under law could give rise to any such

liens, any of which liens are or may be prior to, or equal with, the lien of this Security Instrument, except those which are insured against by the title insurance policy insuring the lien of this Security Instrument.

(m) Intentionally Omitted.

(n) Insurance. The Property is insured in accordance with the requirements set forth in Article III hereof.

(o) Space Leases.

(i) Grantor has delivered a true, correct and complete schedule of all Space Leases as of the date hereof, which accurately and completely sets forth in all material respects, for each such Space Lease, the following (collectively, the "Rent Roll"): the name and address of the tenant with the name, title and telephone number of the contact person of such tenant; the lease expiration date, extension and renewal provisions; the base rent and percentage rent payable; all additional rent and pass-through obligations; and the security deposit held thereunder and the location of such deposit.

(ii) Each Space Lease constitutes the legal, valid and binding obligation of Grantor and, to the knowledge of Grantor, is enforceable against the tenant thereof. No default exists, or with the passing of time or the giving of notice would exist, (A) under any Major Space Lease or (B) under any other Space Leases which would, in the aggregate, have a Material Adverse Effect.

(iii) No tenant under any Space Lease has, as of the date hereof, paid Rent more than thirty (30) days in advance, and the Rents under such Space Leases have not been waived, released, or otherwise discharged or compromised.

(iv) All work to be performed by Grantor under the Space Leases has been substantially performed, all contributions to be made by Grantor to the tenants thereunder have been made except for any held-back amounts, and all other conditions precedent to each such tenant's obligations thereunder have been satisfied.

(v) Except as previously disclosed to Lender in writing, there are no options to terminate any Space Lease.

(vi) Each tenant under a Space Lease or such tenant's authorized subtenant is currently occupying the space demised by such Space Lease.

(vii) Grantor has delivered to Lender true, correct and complete copies of all Space Leases described in the Rent Roll.

(viii) Each Space Lease is in full force and effect and (except as disclosed on the Rent Roll) has not been assigned, modified, supplemented or amended in any way.

(ix) Each tenant under each Space Lease is free from bankruptcy, reorganization or arrangement proceedings or a general assignment for the benefit of creditors.

(x) No Space Lease provides any party with the right to obtain a lien or encumbrance upon the Property superior to the lien of this Security Instrument.

(p) Property Agreements.

(i) Grantor has delivered to Lender true, correct and complete copies of all Property Agreements.

(ii) No Property Agreement provides any party with the right to obtain a lien or encumbrance upon the Property superior to the lien of this Security Instrument.

(iii) No default exists or with the passing of time or the giving of notice or both would exist under any Property Agreement which would, individually or in the aggregate, have a Material Adverse Effect.

(iv) Grantor has not received or given any written communication which alleges that a default exists or, with the giving of notice or the lapse of time, or both, would exist under the provisions of any Property Agreement.

(v) No condition exists whereby Grantor or any future owner of the Property may be required to purchase any other parcel of land which is subject to any Property Agreement or which gives any Person a right to purchase, or right of first refusal with respect to, the Property.

(vi) To the best knowledge of Grantor, no offset or any right of offset exists respecting continued contributions to be made by any party to any Property Agreement except as expressly set forth therein. Except as previously disclosed to Lender in writing, no material exclusions or restrictions on the utilization, leasing or improvement of the Property (including non-compete agreements) exists in any Property Agreement.

(vii) All "pre-opening" requirements contained in all Property Agreements (including, but not limited to, all off-site and on-site construction requirements), if any, have been fulfilled, and, to the best of Grantor's knowledge, no condition now exists whereby any party to any such Property Agreement could refuse to honor its obligations thereunder.

(viii) All work, if any, to be performed by Grantor under each of the Property Agreements has been substantially performed, all contributions to be made by Grantor to any party to such Property Agreements have been made, and all other conditions to such party's obligations thereunder have been satisfied.

(q) Personal Property. Grantor has delivered to Lender a true, correct and complete schedule of all personal property, if any, owned by Grantor and located upon the Property or used in connection with the use or operation of the Realty and Grantor represents that it has good and marketable title to all such personal property, free and clear of any liens, except for liens created under the Loan Documents and liens which describe the equipment and other personal property owned by tenants.

(r) Leasing Brokerage and Management Fees. Except as previously disclosed to Lender in writing, there are no brokerage fees or commissions payable by Grantor with respect to the leasing of space at the Property and there are no management fees payable by Grantor with respect to the management of the Property.

(s) Security Deposits. All security deposits with respect to the Property on the date hereof have been transferred to the Security Deposit Account on the date hereof, and Grantor is in compliance with all Legal Requirements relating to such security deposits as to which failure to comply might, individually or in the aggregate, have a Material Adverse Effect.

(t) Appraisal. Grantor has no knowledge that any of the facts or assumptions on which the Appraisal was based are false or incomplete in any material respect and has no information that would reasonably suggest that the fair market value determined in the Appraisal does not reflect the actual fair market value of the Property.

(u) Representations Generally. The representations and warranties contained in this Security Instrument, and the review and inquiry made on behalf of Grantor therefor, have all been made by Persons having the requisite expertise and knowledge to provide such representations and warranties. No representation, warranty or statement of fact made by or on behalf of Grantor in this Security Instrument or in any certificate, document or schedule furnished to Lender pursuant hereto, contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained therein or herein not misleading (which may be to Grantor's best knowledge where so provided herein). There are no facts presently known to Grantor which have not been disclosed to Lender which would, individually or in the aggregate, have a Material Adverse Effect nor as far as Grantor can foresee might, individually or in the aggregate, have a Material Adverse Effect.

(v) Liquor License. All licenses, permits, approvals and consents which are required for the sale and service of alcoholic beverages on the Premises have been obtained from the applicable Governmental Authorities.

(w) Credit Card Companies. The only Credit Card Companies are as identified in the Cross-collateralization Agreement.

Section 2.06. Removal of Lien. (a) Grantor shall, at its expense, maintain this Security Instrument as a first lien on the Property and shall keep the Property free and clear of all liens and encumbrances of any kind and nature other than the Permitted Encumbrances. Grantor shall, within fifteen (15) days following notice of the filing thereof, promptly discharge of record, by

bond or otherwise, any such liens and, promptly upon request by Lender, shall deliver to Lender evidence reasonably satisfactory to Lender of the discharge thereof.

(b) Without limitation to the provisions of Section 2.06(a) hereof, Grantor shall (i) pay, from time to time when the same shall become due, all claims and demands of mechanics, materialmen, laborers, and others which, if unpaid, might result in, or permit the creation of, a lien on the Property or any part thereof, (ii) cause to be removed of record (by payment or posting of bond or settlement or otherwise) any mechanics', materialmens', laborers' or other lien on the Property, or any part thereof, or on the revenues, rents, issues, income or profit arising therefrom, and (iii) in general, do or cause to be done, without expense to Lender, everything reasonably necessary to preserve in full the lien of this Security Instrument. If Grantor fails to comply with the requirements of this Section 2.06(b), then, upon five (5) Business Days' prior notice to Grantor, Lender may, but shall not be obligated to, pay any such lien, and Grantor shall, within five (5) Business Days after Lender's demand therefor, reimburse Lender for all sums so expended, together with interest thereon at the Default Rate from the date advanced, all of which shall be deemed part of the Debt. Nothing contained herein shall be deemed a consent or request of Lender, express or implied, by inference or otherwise, to the performance of any alteration, repair or other work by any contractor, subcontractor or laborer or the furnishing of any materials by any materialmen in connection therewith.

(c) Notwithstanding the foregoing, Grantor may contest any lien (other than a lien relating to non-payment of Impositions, the contest of which shall be governed by Section 4.04 hereof) of the type set forth in subparagraph (b)(ii) of this Section 2.06 provided that, following prior notice to Lender (i) Grantor is contesting the validity of such lien with due diligence and in good faith and by appropriate proceedings, without cost or expense to Lender or any of its agents, employees, officers, or directors, (ii) Grantor shall preclude the collection of, or other realization upon, any contested amount from the Property or any revenues from or interest in the Property, (iii) neither the Property nor any part thereof nor interest therein, shall be in any danger of being sold, forfeited or lost by reason of such contest by Grantor, (iv) such contest by Grantor shall not affect the ownership, use or occupancy of the Property, (v) such contest by Grantor shall not subject Lender or Grantor to the risk of civil or criminal liability (other than the civil liability of Grantor for the amount of the lien in question), (vi) such lien is subordinate to the lien of this Security Instrument, (vii) Grantor has not consented to such lien, (viii) Grantor has given Lender prompt notice of the filing of such lien and the bonding thereof by Grantor and, upon request by Lender from time to time, notice of the status of such contest by Grantor and/or confirmation of the continuing satisfaction of the conditions set forth in this Section 2.06(c), (ix) Grantor shall promptly pay the obligation secured by such lien upon a final determination of Grantor's liability therefor, and (x) Grantor shall deliver to Lender cash, a bond or other security acceptable to Lender equal to 125% of the contested amount pursuant to collateral arrangements reasonably satisfactory to Lender.

Section 2.07. Cost of Defending and Upholding this Security Instrument Lien. If any action or proceeding is commenced to which Lender is made a party relating to the Loan Documents and/or the Property or Lender's interest therein or in which it becomes necessary to defend or uphold the lien of this Security Instrument or any other Loan Document, Grantor shall,

on demand, reimburse Lender for all expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Lender in connection therewith, and such sum, together with interest thereon at the Default Rate from and after such demand until fully paid, shall constitute a part of the Debt.

Section 2.08. Use of the Property. Grantor will use, or cause to be used, the Property for such use as is permitted pursuant to applicable Legal Requirements including, without limitation, under the certificate of occupancy applicable to the Property, and which is required by the Loan Documents. Grantor shall not suffer or permit the Property or any portion thereof to be used by the public, any tenant, or any Person not subject to a Lease, in a manner reasonably likely to impair Grantor's title to the Property, or in such manner as may give rise to a claim or claims of adverse usage or adverse possession by the public, or of implied dedication of the Property or any part thereof.

Section 2.09. Financial Reports. (a) Grantor will keep and maintain or will cause to be kept and maintained on a Fiscal Year basis, in accordance with GAAP and the Uniform System of Accounts (or such other accounting basis reasonably acceptable to Lender) consistently applied, proper and accurate books, tax returns, records and accounts reflecting (i) all of the financial affairs of Grantor and Guarantor and (ii) all items of income and expense in connection with the operation of the Property or in connection with any services, equipment or furnishings provided in connection with the operation thereof, whether such income or expense may be realized by Grantor or by any other Person whatsoever, excepting lessees unrelated to and unaffiliated with Grantor who have leased from Grantor portions of the Premises for the purpose of occupying the same. Lender shall have the right from time to time at all times during normal business hours upon reasonable notice to examine such books, tax returns, records and accounts at the office of Grantor or other Person maintaining such books, tax returns, records and accounts and to make such copies or extracts thereof as Lender shall desire. After the occurrence of an Event of Default, Grantor shall pay any costs and expenses incurred by Lender to examine Grantor's and Guarantor's accounting records with respect to the Property, to the extent Lender shall determine to be necessary or appropriate in the protection of Lender's interest.

(b) Grantor will furnish Lender (i) annually, within one hundred twenty (120) days following the end of each Fiscal Year of Grantor and (ii) on a quarterly basis, within forty-five (45) days following the end of each fiscal quarter of Grantor, with a complete copy of Grantor's financial statement consistently applied covering (i) all of the financial affairs of Grantor and (ii) the operation of the Property for such Fiscal Year or fiscal quarters, as applicable, and containing a statement of revenues and expenses, a statement of assets and liabilities and a statement of Grantor's equity. Each annual financial statement shall be audited by a nationally recognized Independent certified public accountant that is acceptable to Lender in accordance with GAAP and the Uniform System of Accounts (or such other accounting basis reasonably acceptable to Lender). Together with the financial statements required to be furnished pursuant to this Section 2.09(b), Grantor shall furnish to Lender (A) an Officer's Certificate certifying as of the date thereof (1) that the financial statements accurately represent the results of operations and financial condition of Grantor and the Property all in accordance with GAAP and the Uniform System of Accounts (or such other accounting basis reasonably acceptable to Lender)

consistently applied, and (2) whether there exists a Default under the Note or any other Loan Document executed and delivered by Grantor and, if such event or circumstance exists, the nature thereof, the period of time it has existed and the action then being taken to remedy such event or circumstance and (B) together with the financial statements delivered pursuant to Section 2.09(b)(ii) above, a statement showing (1) Net Operating Income for the prior twelve (12) month period adjusted to reflect the Adjusted Net Cash Flow (subject to verification by Lender in its reasonable discretion) and (2) the calculation of the Debt Service Coverage.

(c) During the continuance of an O&M Operative Period and when requested by Lender, Grantor will furnish Lender monthly, within thirty (30) days following the end of each month, with a true, complete and correct cash flow statement with respect to the Property in the form attached hereto as **Exhibit F** and made a part hereof, showing (i) all cash receipts of any kind whatsoever and all cash payments and disbursements, (ii) year-to-date summaries of such cash receipts, payments and disbursements, and (iii) during an O&M Operative Period, Net Operating Income for the subsequent twelve (12) month period adjusted to reflect the Adjusted Net Cash Flow (subject to the verification by Lender in its reasonable discretion) and a calculation of the Debt Service Coverage, together with a certification of Manager stating that such cash flow statement is true, complete and correct and a list of all litigation and proceedings affecting Grantor or the Property in which the amount involved is $250,000 or more, if not covered by insurance (or $1,000,000 or more whether or not covered by insurance).

(d) During the continuance of an O&M Operative Period and when requested by Lender, Grantor will furnish Lender monthly, within twenty (20) days following the end of each month, with a certification of Manager stating that all Operating Expenses with respect to the Property which had accrued as of the last day of the month preceding the delivery of the cash flow statement referred to in clause (c) above have been fully paid or otherwise reserved for by Manager (any such certification or any certification furnished by a Manager pursuant to clause (c) above, a "Manager Certification").

(e) Grantor will furnish Lender annually, within twenty (20) days following the end of each year and within thirty (30) days following receipt of such request therefor, with a true, complete and correct rent roll for the Property, including a list of which tenants are in default under their respective Leases, dated as of the date of Lender's request, identifying each tenant, the monthly rent and additional rent, if any, payable by such tenant, the expiration date of such tenant's Lease, the security deposit, if any, held by Grantor under the Lease, the space covered by the Lease, each tenant that has filed a bankruptcy, insolvency, or reorganization proceeding since delivery of the last such rent roll, and the arrearages for such tenant, if any, and, if requested by Lender, a summary of the material terms of the Leases, including, without limitation, the dates of occupancy, the dates of expiration, any Rent concessions, work obligations or other inducements granted to the tenants thereunder, and any renewal options, and such rent roll shall be accompanied by an Officer's Certificate, dated as of the date of the delivery of such rent roll, certifying that such rent roll is true, correct and complete in all material respects as of its date.

(f) Grantor shall furnish to Lender, within thirty (30) days after Lender's request therefor, with such further detailed information with respect to the operation of the Property and the financial affairs of Grantor as may be reasonably requested by Lender.

(g) Grantor shall cause Manager to furnish to Lender, within thirty (30) days following the end of each Fiscal Year, a schedule of tenant security deposits showing any activity in the Security Deposit Account for such month, together with a certification of Manager as to the balance in such Security Deposit Account and that such tenant security deposits are being held in accordance with all Legal Requirements.

(h) Grantor will furnish Lender annually, within ninety (90) days after the end of each Fiscal Year, with a report setting forth (i) the average occupancy rate of the Property during such Fiscal Year, (ii) the capital repairs, replacements and improvements performed at the Property during such Fiscal Year and the aggregate Recurring Replacement Expenditures made in connection therewith, and (iii) the balance contained in each of the Escrow Accounts as of the end of such Fiscal Year (which balance Lender shall provide upon Grantor's written request therefor).

(i) Grantor shall cause Manager to keep and maintain on a Fiscal Year basis, in accordance with GAAP and the Uniform System of Accounts (or such other accounting basis reasonably acceptable to Lender) consistently applied, proper and accurate books, records and accounts on an accrual basis reflecting (i) all of the financial results of operation and financial conditions of Manager and (ii) all items of income and expense in connection with the operation of the Property or in connection with any services, equipment or furnishings provided in connection with the operation thereof, whether such income or expense may be realized by Manager or by any other Person whatsoever. Lender shall have the right from time to time at all times during normal business hours upon reasonable notice to examine such books, records and accounts at the office of Manager or other Person maintaining such books, records and accounts and to make such copies or extracts thereof as Lender shall desire. After the occurrence of an Event of Default, Grantor shall pay any costs and expenses incurred by Lender to examine Manager's accounting records with respect to the Property, as Lender shall determine to be necessary or appropriate in the protection of Lender's interest.

(j) Grantor will furnish Lender monthly, within thirty (30) days following the end of each month, an occupancy summary for the Property setting forth the occupancy rates, average daily room rates, advance booking information (excluding customer names), RevPAR Yield Index, RevPAR and room revenues for each month of the preceding calendar year, as well as annual averages of the same, and such other information as may customarily be reflected thereon or reasonably requested by Lender, together with all franchise inspection reports and STR Reports received by Grantor during the preceding month.

(k) Grantor shall and shall cause Guarantor to furnish to Lender annually, within thirty (30) days of filing its respective tax return, a copy of such tax return and within ninety (90) days after the end of each Fiscal Year, a statement of net worth of the Guarantor.

(l) Grantor shall submit to Lender an Annual Budget not later than January 31 of each year or, with respect to the Fiscal Year in which the Closing Date occurs, within ninety (90) days of the Closing Date. At any time during the continuance of an Event of Default, and during the continuance of an O&M Operative Period, Grantor shall submit to Lender for Lender's written approval an Annual Budget not later than January 31 of each year, in form satisfactory to Lender setting forth in reasonable detail budgeted monthly operating income and monthly operating capital and other expenses for the Property. In the event that Lender has the right to approve the Annual Budget pursuant to the preceding sentence, (a) such approval shall not be unreasonably withheld, and in the event that Lender objects to the proposed Annual Budget submitted by Grantor, Lender shall advise Grantor of such objections within fifteen (15) days after receipt thereof (and deliver to Grantor a reasonably detailed description of such objections) and Grantor shall, within ten (10) days after receipt of notice of any such objections, revise such Annual Budget and resubmit the same to Lender, (b) Lender shall advise Grantor of any objections to such revised Annual Budget within ten (10) days after receipt thereof (and deliver to Grantor a reasonably detailed description of such objections) and Grantor shall revise the same in accordance with the process described herein until Lender approves an Annual Budget, provided, however, that if Lender shall not advise Grantor of its objections to any proposed Annual Budget within the applicable time period set forth in this Section, then such proposed Annual Budget shall be deemed approved by Lender, (c) until such time that Lender approves a proposed Annual Budget, the most recently Approved Annual Budget shall apply; provided that, such Approved Annual Budget shall be adjusted to reflect actual increases in Basic Carrying Costs and utilities expenses and to delete any non-recurring expenses and (d) in the event that Grantor must incur an Extraordinary Expense, then Grantor shall promptly deliver to Lender a reasonably detailed explanation of such proposed Extraordinary Expense for Lender's approval, which approval may be granted or denied in Lender's sole and absolute discretion.

(m) In the event that Grantor fails to deliver any of the financial statements, reports or other information required to be delivered to Lender pursuant to this Section 2.09 on or prior to their due dates, if any such failure shall continue for thirty (30) days following notice thereof from Lender, Grantor shall pay to Lender an administrative fee in the amount of Five Hundred Dollars ($500) for each due date with respect to which such a failure occurs (and not on a per-item basis). Grantor agrees that such administrative fee (i) is a fair and reasonable fee necessary to compensate Lender for its additional administrative costs and increased costs relating to Grantor's failure to deliver the aforementioned statements, reports or other items as and when required hereunder and (ii) is not a penalty.

Section 2.10. Litigation. Grantor will give prompt written notice to Lender of any litigation or governmental proceedings pending or threatened (in writing) against Grantor which might have a Material Adverse Effect.

Section 2.11. Updates of Representations. Grantor shall deliver to Lender within fifteen (15) Business Days of the request of Lender an Officer's Certificate updating all of the representations and warranties contained in this Security Instrument and the other Loan Documents and certifying that all of the representations and warranties contained in this Security Instrument and the other Loan Documents, as updated pursuant to such Officer's Certificate, are

true, accurate and complete as of the date of such Officer's Certificate or shall set forth the exceptions to representations and/or warranties in reasonable detail, as applicable, and, upon Lender's request for further information with respect to such exceptions, shall provide Lender such additional information as Lender may reasonably request. Notwithstanding the foregoing, provided that no Event of Default has occurred and is continuing, Grantor shall not be required to deliver the foregoing Officer's Certificate more than three (3) times during the term of the Loan.

ARTICLE III: INSURANCE AND CASUALTY RESTORATION

Section 3.01. Insurance Coverage. Grantor shall, at its expense, maintain the following insurance coverages with respect to the Property during the term of this Security Instrument:

(a) (i) Insurance against loss or damage by fire, casualty and other hazards included in an "all-risk" coverage endorsement or its equivalent (which, in the case of insurance during the time of any construction work being financed with the proceeds of the Loan ("Construction") shall be in "builder's risk completed value non-reporting form" together with rents, earnings and extra expense insurance covering loss due to delay in completion of the Improvements), with such endorsements as Lender may from time to time reasonably require and which are customarily required by Institutional Lenders of similar properties similarly situated, including, without limitation, if the Property constitutes a legal non-conforming use, an ordinance of law coverage endorsement which contains "Demolition Cost", "Loss Due to Operation of Law" and "Increased Cost of Construction" coverages, covering the Property

in an amount not less than the greater of (A) 100% of the insurable replacement value of the Property (exclusive of the Premises and footings and foundations) and (B) such other amount as is necessary to prevent any reduction in such policy by reason of and to prevent Grantor, Lender or any other insured thereunder from being deemed to be a co-insurer. Not less frequently than once every three (3) years, Grantor, at its option, shall either (A) have the Appraisal updated or obtain a new appraisal of the Property, (B) have a valuation of the Property made by or for its insurance carrier conducted by an appraiser experienced in valuing properties of similar type to that of the Property which are in the geographical area in which the Property is located or (C) provide such other evidence as will, in Lender's sole judgment, enable Lender to determine whether there shall have been an increase in the insurable value of the Property and Grantor shall deliver such updated Appraisal, new appraisal, insurance valuation or other evidence acceptable to Lender, as the case may be, and, if such updated Appraisal, new appraisal, insurance valuation, or other evidence acceptable to Lender reflects an increase in the insurable value of the Property, the amount of insurance required hereunder shall be increased accordingly and Grantor shall deliver evidence satisfactory to Lender that such policy has been so increased.

(ii) Commercial general liability insurance against claims for personal and bodily injury and/or death to one or more persons or property damage, occurring on, in or about the Property (including the adjoining streets, sidewalks and passageways therein) in

such amounts as Lender may from time to time reasonably require (but in no event shall Lender's requirements be increased more frequently than once during each twelve (12) month period) and which are customarily required by Institutional Lenders for similar properties similarly situated, but not less than $1,000,000 per occurrence and $2,000,000 general aggregate on a per location basis and, in addition thereto, not less than $75,000,000 excess and/or umbrella liability insurance shall be maintained for any and all claims.

(iii) Business interruption, rent loss or other similar insurance (A) with loss payable to Lender, (B) covering all risks required to be covered by the insurance provided for in Section 3.01(a)(i) hereof and (C) in an amount not less than 100% of the projected total revenues derived from the Property for the succeeding twenty-four (24) month period based on an occupancy rate taking into account historical and projected occupancy. The amount of such insurance shall be determined upon the execution of this Security Instrument, and not more frequently than once each calendar year thereafter based on Grantor's reasonable estimate of projected total revenues derived from the Property for the next succeeding twenty-four (24) months together with a six (6) month extended period of indemnity. In the event the Property shall be damaged or destroyed, Grantor shall and hereby does assign to Lender all payment of claims under the policies of such insurance, and all amounts payable thereunder, and all net amounts, shall be collected by Lender under such policies and shall be applied in accordance with this Security Instrument; provided, however, that nothing herein contained shall be deemed to relieve Grantor of its obligations to timely pay all amounts due under the Loan Documents.

(iv) War risk insurance when such insurance is obtainable from the United States of America or any agency or instrumentality thereof at reasonable rates (for the maximum amount of insurance obtainable) and if requested by Lender, and such insurance is then customarily required by Institutional Lenders of similar properties similarly situated.

(v) Insurance against loss or damages from (A) leakage of sprinkler systems and (B) explosion of steam boilers, air conditioning equipment, pressure vessels or similar apparatus now or hereafter installed at the Property, in such amounts as Lender may from time to time reasonably require and which are then customarily required by Institutional Lenders of similar properties similarly situated, but in no event less than $25,000,000.

(vi) Flood insurance in an amount equal to the full insurable value of the Property or the maximum amount available, whichever is less, if the Improvements are located in an area designated by the Secretary of Housing and Urban Development as being "an area of special flood hazard" under the National Flood Insurance Program (i.e., having a one percent or greater chance of flooding), and if flood insurance is available under the National Flood Insurance Act.

(vii) Worker's compensation insurance or other similar insurance which may be required by Governmental Authorities or Legal Requirements.

(viii) Insurance against loss resulting from mold, spores or fungus on or about the Premises.

(ix) Insurance against damage resulting from acts of terrorism, or an insurance policy without an exclusion for damages resulting from terrorism, on terms consistent with the commercial property insurance policy required under subsections (i) (ii) and (iii) above.

(x) At all times during Construction, contractor's liability insurance to a limit of not less than $25,000,000 on a per occurrence basis covering each contractor's construction operation at the Premises.

(xi) Such other insurance as may from time to time be required by Lender and which is then customarily required by Institutional Lenders for similar properties similarly situated, against other insurable hazards, including, but not limited to, malicious mischief, vandalism, sinkhole and mine subsidence, acts of terrorism, windstorm and/or earthquake, due regard to be given to the size and type of the Premises, Improvements, Fixtures and Equipment and their location, construction and use. Additionally, Grantor shall carry such insurance coverage as Lender may from time to time require if the failure to carry such insurance may result in a downgrade, qualification or withdrawal of any class of securities issued in connection with a Securitization or, if the Loan is not yet part of a Securitization, would result in an increase in the subordination levels of any class of securities anticipated to be issued in connection with a proposed Securitization.

(xii) If Grantor, any of its Affiliates or Manager holds a liquor license for the Premises, liquor liability insurance in the amount of no less than $10,000,000.

(xiii) Automobile liability insurance covering owned, hired and not owned vehicles in an amount of not less than $1,000,000 per accident.

(b) Grantor shall cause any Manager of the Property to maintain fidelity insurance in an amount equal to or greater than the Operating Income of the Property for the six (6) month period immediately preceding the date on which the premium for such insurance is due and payable or such lesser amount as Lender shall approve but not to exceed $1,000,000.

Section 3.02. Policy Terms. (a) All insurance required by this Article III shall be in the form (other than with respect to Sections 3.01(a)(vi) and (vii) above when insurance in those two sub-sections is placed with a governmental agency or instrumentality on such agency's forms) and amount and with deductibles as, from time to time, shall be reasonably acceptable to Lender, under valid and enforceable policies issued by financially responsible insurers authorized to do business in the State where the Property is located, with a general policyholder's service rating of not less than A and a financial rating of not less than VIII as rated in the most currently available Best's Insurance Reports (or the equivalent, if such rating system shall hereafter be altered or

replaced) and shall have a claims paying ability rating and/or financial strength rating, as applicable, of not less than "A" (or its equivalent), or such lower claims paying ability rating and/or financial strength rating, as applicable, as Lender shall, in its sole and absolute discretion, consent to, from a Rating Agency (one of which after a Securitization in which Standard & Poor's rates any securities issued in connection with such Securitization, shall be Standard & Poor's). Originals or certified copies of all insurance policies shall be delivered to and held by Lender. All such policies (except policies for worker's compensation) shall name Lender, its successors and/or assigns as an additional named insured, with respect to the insurance required pursuant to Section 3.01(a)(iii) above, shall provide for loss payable to Lender, its successors and/or assigns and shall contain (or have attached): (i) standard "non-contributory mortgagee" endorsement or its equivalent relating, inter alia, to recovery by Lender notwithstanding the negligent or willful acts or omissions of Grantor; (ii) a waiver of subrogation endorsement as to Lender; (iii) an endorsement indicating that neither Lender nor Grantor shall be or be deemed to be a co-insurer with respect to any casualty risk insured by such policies and shall provide for a deductible per loss of an amount not more than $25,000 and (iv) a provision that such policies shall not be canceled, terminated, denied renewal or amended, including, without limitation, any amendment reducing the scope or limits of coverage, without at least thirty (30) days' prior written notice to Lender in each instance. Not less than thirty (30) days prior to the expiration dates of the insurance policies obtained pursuant to this Security Instrument, originals or certified copies of renewals of such policies (or certificates evidencing such renewals) bearing notations evidencing the payment of premiums or accompanied by other reasonable evidence of such payment (which premiums shall not be paid by Grantor through or by any financing arrangement which would entitle an insurer to terminate a policy) shall be delivered by Grantor to Lender. Grantor shall not carry separate insurance, concurrent in kind or form or contributing in the event of loss, with any insurance required under this Article III.

(b) If Grantor fails to maintain and deliver to Lender the original policies or certificates of insurance required by this Security Instrument, or if there are insufficient funds in the Basic Carrying Costs Escrow Account to pay the premiums for same, Lender may, at its option, procure such insurance, and Grantor shall pay, or as the case may be, reimburse Lender for, all premiums thereon promptly, upon demand by Lender, with interest thereon at the Default Rate from the date paid by Lender to the date of repayment and such sum shall constitute a part of the Debt.

(c) Grantor shall notify Lender of the renewal premium of each insurance policy and Lender shall be entitled to pay such amount on behalf of Grantor from the Basic Carrying Costs Escrow Account.

(d) The insurance required by this Security Instrument may, at the option of Grantor, be effected by blanket and/or umbrella policies issued to Grantor covering the Property provided that, in each case, the policies otherwise comply with the provisions of this Security Instrument and allocate to the Property, from time to time (but in no event less than once a year), the coverage specified by this Security Instrument, without possibility of reduction or coinsurance by reason of, or damage to, any other property (real or personal) named therein. If the insurance required by this Security Instrument shall be effected by any such blanket or umbrella policies,

Grantor shall furnish to Lender (i) original policies or certified copies thereof, or an original certificate of insurance together with reasonable access to the original of such policy to review such policy's coverage of the Property, with schedules attached thereto showing the amount of the insurance provided under such policies applicable to the Property and (ii) an Officer's Certificate setting forth (A) the number of properties covered by such policy, (B) the location by city (if available, otherwise, county) and state of the properties, (C) the average square footage of the properties, (D) a brief description of the typical construction type included in the blanket policy and (E) such other information as Lender may reasonably request.

Section 3.03. Assignment of Policies. (a) Grantor hereby assigns to Lender the proceeds of all insurance (other than worker's compensation and liability insurance) obtained pursuant to this Security Instrument, all of which proceeds shall be payable to Lender as collateral and further security for the payment of the Debt and the performance of the Cross-collateralized Borrowers' obligations hereunder and under the other Loan Documents, and Grantor hereby authorizes and directs the issuer of any such insurance to make payment of such proceeds directly to Lender. Except as otherwise expressly provided in Section 3.04 or elsewhere in this Article III, Lender shall have the option, in its discretion, and without regard to the adequacy of its security, to apply all or any part of the proceeds it may receive pursuant to this Article in such manner as Lender may elect to any one or more of the following: (i) the payment of the Debt, whether or not then due, in any proportion or priority as Lender, in its discretion, may elect, (ii) the repair or restoration of the Property, (iii) the cure of any Default or (iv) the reimbursement of the costs and expenses of Lender incurred pursuant to the terms hereof in connection with the recovery of the Insurance Proceeds. Nothing herein contained shall be deemed to excuse Grantor from repairing or maintaining the Property as provided in this Security Instrument or restoring all damage or destruction to the Property, regardless of the sufficiency of the Insurance Proceeds, and the application or release by Lender of any Insurance Proceeds shall not cure or waive any Default or notice of Default.

(b) In the event of the foreclosure of this Security Instrument or any other transfer of title or assignment of all or any part of the Property in extinguishment, in whole or in part, of the Debt, all right, title and interest of Grantor in and to all policies of insurance required by this Security Instrument shall inure to the benefit of the successor in interest to Grantor or the purchaser of the Property. If, prior to the receipt by Lender of any proceeds, the Property or any portion thereof shall have been sold on foreclosure of this Security Instrument or by deed in lieu thereof or otherwise, or any claim under such insurance policy arising during the term of this Security Instrument is not paid until after the extinguishment of the Debt, and Lender shall not have received the entire amount of the Debt outstanding at the time of such extinguishment, whether or not a deficiency judgment on this Security Instrument shall have been sought or recovered or denied, then, the proceeds of any such insurance to the extent of the amount of the Debt not so received, shall be paid to and be the property of Lender, together with interest thereon at the Default Rate, and the reasonable attorney's fees, costs and disbursements incurred by Lender in connection with the collection of the proceeds which shall be paid to Lender and Grantor hereby assigns, transfers and sets over to Lender all of Grantor's right, title and interest in and to such proceeds. Notwithstanding any provisions of this Security Instrument to the contrary, Lender shall not be deemed to be a trustee or other fiduciary with respect to its receipt

of any such proceeds, which may be commingled with any other monies of Lender; provided, however, that Lender shall use such proceeds for the purposes and in the manner permitted by this Security Instrument. Any proceeds deposited with Lender shall be held by Lender in an interest-bearing account, but Lender makes no representation or warranty as to the rate or amount of interest, if any, which may accrue on such deposit and shall have no liability in connection therewith. Interest accrued, if any, on the proceeds shall be deemed to constitute a part of the proceeds for purposes of this Security Instrument. The provisions of this Section 3.03(b) shall survive the termination of this Security Instrument by foreclosure, deed in lieu thereof or otherwise as a consequence of the exercise of the rights and remedies of Lender hereunder after a Default.

Section 3.04. Casualty Restoration. (a) (i) In the event of any damage to or destruction of the Property, Grantor shall give prompt written notice to Lender (which notice shall set forth Grantor's good faith estimate of the cost of repairing or restoring such damage or destruction, or, if Grantor cannot reasonably estimate the anticipated cost of restoration, Grantor shall nonetheless give Lender prompt notice of the occurrence of such damage or destruction, and will diligently proceed to obtain estimates to enable Grantor to quantify the anticipated cost and time required for such restoration, whereupon Grantor shall promptly notify Lender of such good faith estimate) and, provided that restoration does not violate any Legal Requirements, Grantor shall promptly commence and diligently prosecute to completion the repair, restoration or rebuilding of the Property so damaged or destroyed to a condition such that the Property shall be at least equal in value to that immediately prior to the damage to the extent practicable, in full compliance with all Legal Requirements and the provisions of all Leases, and in accordance with Section 3.04(b) below. Such repair, restoration or rebuilding of the Property are sometimes hereinafter collectively referred to as the "Work".

(ii) Grantor shall not adjust, compromise or settle any claim for Insurance Proceeds without the prior written consent of Lender, which shall not be unreasonably withheld or delayed and Lender shall have the right, at Grantor's sole cost and expense, to participate in any settlement or adjustment of Insurance Proceeds; provided, however, that, except during the continuance of an Event of Default, Lender's consent shall not be required with respect to the adjustment, compromising or settlement of any claim for Insurance Proceeds in an amount less than $100,000.

(iii) Subject to Section 3.04(a)(iv), Lender shall apply any Insurance Proceeds which it may receive towards the Work in accordance with Section 3.04(b) and the other applicable sections of this Article III.

(iv) If (A) a Default shall have occurred, (B) Lender is not reasonably satisfied that the Debt Service Coverage, after substantial completion of the Work, will be at least equal to the Required Debt Service Coverage, (C) more than thirty percent (30%) of the reasonably estimated fair market value of the Property is damaged or destroyed, (D) Lender is not reasonably satisfied that the Work can be completed six (6) months prior to Maturity or (E) Lender is not reasonably satisfied that the Work can be completed within twelve (12) months of the damage to or destruction of the Property (each, a "Substantial

Casualty"), Lender shall have the option, in its sole discretion to apply any Insurance Proceeds it may receive pursuant to this Security Instrument (less any cost to Lender of recovering and paying out such proceeds incurred pursuant to the terms hereof and not otherwise reimbursed to Lender, including, without limitation, reasonable attorneys' fees and expenses) to the payment of the Debt, without any prepayment fee or charge of any kind, or to allow such proceeds to be used for the Work pursuant to the terms and subject to the conditions of Section 3.04(b) hereof and the other applicable sections of this Article III.

(v) In the event that Lender elects or is obligated hereunder to allow Insurance Proceeds to be used for the Work, any excess proceeds remaining after completion of such Work shall be applied to the payment of the Debt without any prepayment fee or charge of any kind.

(b) If any Condemnation Proceeds in accordance with Section 6.01(a), or any Insurance Proceeds in accordance with Section 3.04(a), are to be applied to the repair, restoration or rebuilding of the Property, then such proceeds shall be deposited into a segregated interest-bearing bank account at the Bank, which shall be an Eligible Account, held by Lender and shall be paid out from time to time to Grantor as the Work progresses (less any cost to Lender of recovering and paying out such proceeds, including, without limitation, reasonable attorneys' fees and costs allocable to inspecting the Work and the plans and specifications therefor) subject to Section 5.13 hereof and to all of the following conditions:

(i) An Independent architect or engineer selected by Grantor and reasonably acceptable to Lender (an "Architect" or "Engineer") or a Person otherwise reasonably acceptable to Lender, shall have delivered to Lender a certificate estimating the cost of completing the Work, and, if the amount set forth therein is more than the sum of the amount of

Insurance Proceeds then being held by Lender in connection with a casualty and amounts agreed to be paid as part of a final settlement under the insurance policy upon or before completion of the Work, Grantor shall have delivered to Lender (A) cash collateral in an amount equal to such excess, (B) an unconditional, irrevocable, clean sight draft letter of credit, in form, substance and issued by a bank reasonably acceptable to Lender, in the amount of such excess and draws on such letter of credit shall be made by Lender to make payments pursuant to this Article III following exhaustion of the Insurance Proceeds therefor or (C) a completion bond in form, substance and issued by a surety company reasonably acceptable to Lender.

(ii) If the cost of the Work is reasonably estimated by an Architect or Engineer in a certification reasonably acceptable to Lender to be equal to or exceed five percent (5%) of the Allocated Loan Amount, such Work shall be performed under the supervision of an Architect or Engineer, it being understood that the plans and specifications with respect thereto shall provide for Work so that, upon completion thereof, the Property shall be at least equal in replacement value and general utility to the Property prior to the damage or destruction.

(iii) Each request for payment shall be made on not less than ten (10) days' prior notice to Lender and shall be accompanied by a certificate of an Architect or Engineer, or, if the Work is not required to be supervised by an Architect or Engineer, by an Officer's Certificate stating (A) that payment is for Work completed in compliance with the plans and specifications, if required under clause (ii) above, (B) that the sum requested is required to reimburse Grantor for payments by Grantor to date, or is due to the contractors, subcontractors, materialmen, laborers, engineers, architects or other Persons rendering services or materials for the Work (giving a brief description of such services and materials), and that when added to all sums previously paid out by Lender does not exceed the value of the Work done to the date of such certificate, (C) if the sum requested is to cover payment relating to repair and restoration of personal property required or relating to the Property, that title to the personal property items covered by the request for payment is vested in Grantor (unless Grantor is lessee of such personal property), and (D) that the Insurance Proceeds and other amounts deposited by Grantor held by Lender after such payment is more than the estimated remaining cost to complete such Work; provided, however, that if such certificate is given by an Architect or Engineer, such Architect or Engineer shall certify as to clause (A) above, and such Officer's Certificate shall certify as to the remaining clauses above, and provided, further, that Lender shall not be obligated to disburse such funds if Lender determines, in Lender's reasonable discretion, that Grantor shall not be in compliance with this Section 3.04(b). Additionally, each request for payment shall contain a statement signed by Grantor stating that the requested payment is for Work satisfactorily done to date.

(iv) Each request for payment shall be accompanied by waivers of lien, in customary form and substance, covering that part of the Work for which payment or reimbursement is being requested and, if required by Lender, a search prepared by a title company or licensed abstractor, or by other evidence reasonably satisfactory to Lender that there has not been filed with respect to the Property any mechanic's or other lien or instrument for retention of title relating to any part of the Work not discharged of record. Additionally, as to any personal property covered by the request for payment, Lender shall be furnished with evidence of Grantor having incurred a payment obligation therefor and such further evidence reasonably satisfactory to assure Lender that UCC filings therefor provide a valid first lien on the personal property.

(v) Lender shall have the right to inspect the Work at all reasonable times upon reasonable prior notice and may condition any disbursement of Insurance Proceeds upon satisfactory compliance by Grantor with the provisions hereof. Neither the approval by Lender of any required plans and specifications for the Work nor the inspection by Lender of the Work shall make Lender responsible for the preparation of such plans and specifications, or the compliance of such plans and specifications of the Work, with any applicable law, regulation, ordinance, covenant or agreement.

(vi) Insurance Proceeds shall not be disbursed more frequently than once every thirty (30) days.

(vii) Until such time as the Work has been substantially completed, Lender shall not be obligated to disburse up to ten percent (10%) of the cost of the Work (the "Retention Amount") to Grantor. Upon substantial completion of the Work, Grantor shall send notice thereof to Lender and, subject to the conditions of Section 3.04(b)(i)-(iv), Lender shall disburse one-half of the Retention Amount to Grantor; provided, however, that the remaining one-half of the Retention Amount shall be disbursed to Grantor when Lender shall have received copies of any and all final certificates of occupancy or other certificates, licenses and permits required for the ownership, occupancy and operation of the Property in accordance with all Legal Requirements. Grantor hereby covenants to diligently seek to obtain any such certificates, licenses and permits.

(viii) Upon failure on the part of Grantor promptly to commence the Work or to proceed diligently and continuously to completion of the Work, which failure shall continue after notice for thirty (30) days, Lender may apply any Insurance Proceeds or Condemnation Proceeds it then or thereafter holds to the payment of the Debt in accordance with the provisions of the Note; provided, however, that Lender shall be entitled to apply at any time all or any portion of the Insurance Proceeds or Condemnation Proceeds it then holds to the extent necessary to cure any Event of Default.

(c) If Grantor (i) within ninety (90) days after the occurrence of any damage to the Property or any portion thereof (or such shorter period as may be required under any Major Space Lease) shall fail to submit to Lender for approval plans and specifications for the Work (approved by the Architect and by all Governmental Authorities whose approval is required), (ii) after any such plans and specifications are approved by all Governmental Authorities, the Architect and Lender, shall fail to promptly commence such Work or (iii) shall fail to diligently prosecute such Work to completion, then, in addition to all other rights available hereunder, at law or in equity, Lender, or any receiver of the Property or any portion thereof, upon five (5) days' prior notice to Grantor (except in the event of emergency in which case no notice shall be required), may (but shall have no obligation to) perform or cause to be performed such Work, and may take such other steps as it reasonably deems advisable. Grantor hereby waives, for Grantor, any claim, other than for gross negligence or willful misconduct, against Lender and any receiver arising out of any act or omission of Lender or such receiver pursuant hereto, and Lender may apply all or any portion of the Insurance Proceeds (without the need to fulfill any other requirements of this Section 3.04) to reimburse Lender and such receiver, for all costs not reimbursed to Lender or such receiver upon demand together with interest thereon at the Default Rate from the date such amounts are advanced until the same are paid to Lender or the receiver.

(d) Grantor hereby irrevocably appoints Lender as its attorney-in-fact, coupled with an interest, to collect and receive any Insurance Proceeds paid with respect to any portion of the Property or the insurance policies required to be maintained hereunder, and to endorse any checks, drafts or other instruments representing any Insurance Proceeds whether payable by reason of loss thereunder or otherwise.

Section 3.05. Compliance with Insurance Requirements. Grantor promptly shall comply with, and shall cause the Property to comply with, all Insurance Requirements, even if such compliance requires structural changes or improvements or would result in interference with the use or enjoyment of the Property or any portion thereof provided Grantor shall have a right to contest in good faith and with diligence such Insurance Requirements provided (a) no Default shall exist during such contest and such contest shall not subject the Property or any portion thereof to any lien or affect the priority of the lien of this Security Instrument, (b) failure to comply with such Insurance Requirements will not subject Lender or any of its agents, employees, officers or directors to any civil or criminal liability, (c) such contest will not cause any reduction in insurance coverage, (d) such contest shall not affect the ownership, use or occupancy of the Property, (e) the Property or any part thereof or any interest therein shall not be in any danger of being sold, forfeited or lost by reason of such contest by Grantor, (f) Grantor has given Lender prompt notice of such contest and, upon request by Lender from time to time, notice of the status of such contest by Grantor and/or information of the continuing satisfaction of the conditions set forth in clauses (a) through (e) of this Section 3.05, (g) upon a final determination of such contest, Grantor shall promptly comply with the requirements thereof, and (h) prior to and during such contest, Grantor shall furnish to Lender security satisfactory to Lender, in its reasonable discretion, against loss or injury by reason of such contest or the non-compliance with such Insurance Requirement (and if such security is cash, Lender shall deposit the same in an interest-bearing account and interest accrued thereon, if any, shall be deemed to constitute a part of such security for purposes of this Security Instrument, but Lender (i) makes no representation or warranty as to the rate or amount of interest, if any, which may accrue thereon and shall have no liability in connection therewith and (ii) shall not be deemed to be a trustee or fiduciary with respect to its receipt of any such security and any such security may be commingled with other monies of Lender). If Grantor shall use the Property or any portion thereof in any manner which could permit the insurer to cancel any insurance required to be provided hereunder, Grantor immediately shall obtain a substitute policy which shall satisfy the requirements of this Security Instrument and which shall be effective on or prior to the date on which any such other insurance policy shall be canceled. Grantor shall not by any action or omission invalidate any insurance policy required to be carried hereunder unless such policy is replaced as aforesaid, or materially increase the premiums on any such policy above the normal premium charged for such policy. Grantor shall cooperate with Lender in obtaining for Lender the benefits of any Insurance Proceeds lawfully or equitably payable to Lender in connection with the transaction contemplated hereby.

Section 3.06. Event of Default During Restoration. Notwithstanding anything to the contrary contained in this Security Instrument including, without limitation, the provisions of this Article III, if, at the time of any casualty affecting the Property or any part thereof, or at any time during any Work, or at any time that Lender is holding or is entitled to receive any Insurance

Proceeds pursuant to this Security Instrument, a Default exists and is continuing (whether or not it constitutes an Event of Default), Lender shall then have no obligation to make such proceeds available for Work and Lender shall have the right and option, to be exercised in its sole and absolute discretion and election, with respect to the Insurance Proceeds, either to retain and apply such proceeds in reimbursement for the actual costs, fees and expenses incurred by Lender in accordance with the terms hereof in connection with the adjustment of the loss and any balance

toward payment of the Debt in such priority and proportions as Lender, in its sole discretion, shall deem proper, or towards the Work, upon such terms and conditions as Lender shall determine, or to cure such Default, or to any one or more of the foregoing as Lender, in its sole and absolute discretion, may determine. If Lender shall receive and retain such Insurance Proceeds, the lien of this Security Instrument shall be reduced only by the amount thereof received, after reimbursement to Lender of expenses of collection, and actually applied by Lender in reduction of the principal sum payable under the Note in accordance with the Note.

Section 3.07. Application of Proceeds to Debt Reduction. (a) No damage to the Property, or any part thereof, by fire or other casualty whatsoever, whether such damage be partial or total, shall relieve Grantor from its liability to pay in full the Debt and to perform its obligations under this Security Instrument and the other Loan Documents.

(b) If any Insurance Proceeds are applied to reduce the Debt, Lender shall apply the same in accordance with the provisions of the Note.

ARTICLE IV: IMPOSITIONS

Section 4.01. Payment of Impositions, Utilities and Taxes, etc. (a) Grantor shall pay or cause to be paid all Impositions at least five (5) days prior to the date upon which any fine, penalty, interest or cost for nonpayment is imposed, and furnish to Lender, upon request, receipted bills of the appropriate taxing authority or other documentation reasonably satisfactory to Lender evidencing the payment thereof. If Grantor shall fail to pay any Imposition in accordance with this Section and is not contesting or causing a contesting of such Imposition in accordance with Section 4.04 hereof, or if there are insufficient funds in the Basic Carrying Costs Escrow Account to pay any Imposition, Lender shall have the right, but shall not be obligated, to pay that Imposition, and Grantor shall repay to Lender, on demand, any amount paid by Lender, with interest thereon at the Default Rate from the date of the advance thereof to the date of repayment, and such amount shall constitute a portion of the Debt secured by this Security Instrument and the other Cross-collateralized Mortgages.

(b) Grantor shall, prior to the date upon which any fine, penalty, interest or cost for the nonpayment is imposed, pay or cause to be paid all charges for electricity, power, gas, water and other services and utilities in connection with the Property, and shall, upon request, deliver to Lender receipts or other documentation reasonably satisfactory to Lender evidencing payment thereof. If Grantor shall fail to pay any amount required to be paid by Grantor pursuant to this Section 4.01 and is not contesting such charges in accordance with Section 4.04 hereof, Lender shall have the right, but shall not be obligated, to pay that amount, and Grantor will repay to Lender, on demand, any amount paid by Lender with interest thereon at the Default Rate from the date of the advance thereof to the date of repayment, and such amount shall constitute a portion of the Debt secured by this Security Instrument and the other Cross-collateralized Mortgages.

(c) Grantor shall pay all taxes, charges, filing, registration and recording fees, excises and levies imposed upon Lender by reason of or in connection with its ownership of any Loan

Document or any other instrument related thereto, or resulting from the execution, delivery and recording of, or the lien created by, or the obligation evidenced by, any of them, other than income, franchise and other similar taxes imposed on Lender and shall pay all corporate stamp taxes, if any, and other taxes, required to be paid on the Loan Documents. If Grantor shall fail to make any such payment within ten (10) days after written notice thereof from Lender, Lender shall have the right, but shall not be obligated, to pay the amount due, and Grantor shall reimburse Lender therefor, on demand, with interest thereon at the Default Rate from the date of the advance thereof to the date of repayment, and such amount shall constitute a portion of the Debt secured by this Security Instrument and the other Cross-collateralized Mortgages.

Section 4.02. Deduction from Value. In the event of the passage after the date of this Security Instrument of any Legal Requirement deducting from the value of the Property for the purpose of taxation, any lien thereon or changing in any way the Legal Requirements now in force for the taxation of this Security Instrument, the other Cross-collateralized Mortgages and/or the Debt for federal, state or local purposes, or the manner of the operation of any such taxes so as to adversely affect the interest of Lender, or imposing any tax or other charge on any Loan Document, then Grantor will pay such tax, with interest and penalties thereon, if any, within the statutory period. In the event the payment of such tax or interest and penalties by Grantor would be unlawful, or taxable to Lender or unenforceable or provide the basis for a defense of usury, then in any such event, Lender shall have the option, by written notice of not less than thirty (30) days, to declare the Debt immediately due and payable, with no prepayment fee or charge of any kind.

Section 4.03. No Joint Assessment. Grantor shall not consent to or initiate the joint assessment of the Premises or the Improvements (a) with any other real property constituting a separate tax lot and Grantor represents and covenants that the Premises and the Improvements are and shall remain a separate tax lot or (b) with any portion of the Property which may be deemed to constitute personal property, or any other procedure whereby the lien of any taxes which may be levied against such personal property shall be assessed or levied or charged to the Property as a single lien.

Section 4.04. Right to Contest. Grantor shall have the right, after prior notice to Lender, at its sole expense, to contest by appropriate legal proceedings diligently conducted in good faith, without cost or expense to Lender or any of its agents, employees, officers or directors, the validity, amount or application of any Imposition or any charge described in Section 4.01(b), provided that (a) no Default or Event of Default shall exist during such proceedings and such contest shall not (unless Grantor shall comply with clause (d) of this Section 4.04) subject the Property or any portion thereof to any lien or affect the priority of the lien of this Security Instrument, (b) failure to pay such Imposition or charge will not subject Lender or any of its agents, employees, officers or directors to any civil or criminal liability, (c) the contest suspends enforcement of the Imposition or charge (unless Grantor first pays the Imposition or charge), (d) prior to and during such contest, Grantor shall furnish to Lender security satisfactory to Lender, in its reasonable discretion, against loss or injury by reason of such contest or the non-payment of such Imposition or charge (and if such security is cash, Lender may deposit the same in an interest-bearing account and interest accrued thereon, if any, shall be deemed to constitute a part

of such security for purposes of this Security Instrument, but Lender (i) makes no representation or warranty as to the rate or amount of interest, if any, which may accrue thereon and shall have no liability in connection therewith and (ii) shall not be deemed to be a trustee or fiduciary with respect to its receipt of any such security and any such security may be commingled with other monies of Lender), (e) such contest shall not affect the ownership, use or occupancy of the Property, (f) the Property or any part thereof or any interest therein shall not be in any danger of being sold, forfeited or lost by reason of such contest by Grantor, (g) Grantor has given Lender notice of the commencement of such contest and upon request by Lender, from time to time, notice of the status of such contest by Grantor and/or confirmation of the continuing satisfaction of clauses (a) through (f) of this Section 4.04, and (h) upon a final determination of such contest, Grantor shall promptly comply with the requirements thereof. Upon completion of any contest, Grantor shall immediately pay the amount due, if any, and deliver to Lender proof of the completion of the contest and payment of the amount due, if any, following which Lender shall return the security, if any, deposited with Lender pursuant to clause (d) of this Section 4.04. Grantor shall not pay any Imposition in installments unless permitted by applicable Legal Requirements, and shall, upon the request of Lender, deliver copies of all notices and bills relating to any Imposition or other charge covered by this Article IV to Lender.

Section 4.05. No Credits on Account of the Debt. Grantor will not claim or demand or be entitled to any credit or credits on account of the Debt for any part of the Impositions assessed against the Property or any part thereof and no deduction shall otherwise be made or claimed from the taxable value of the Property, or any part thereof, by reason of this Security Instrument or the Debt. In the event such claim, credit or deduction shall be required by Legal Requirements, Lender shall have the option, by written notice of not less than thirty (30) days, to declare the Debt immediately due and payable, and Grantor hereby agrees to pay such amounts not later than thirty (30) days after such notice.

Section 4.06. Documentary Stamps. If, at any time, the United States of America, any State or Commonwealth thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note, this Security Instrument or any other Loan Document, or impose any other tax or charges on the same, Grantor will pay the same, with interest and penalties thereon, if any.

ARTICLE V: CENTRAL CASH MANAGEMENT

Section 5.01. Cash Flow. Grantor hereby acknowledges and agrees that the Rents (which for the purposes of this Section 5.01 shall not include security deposits from tenants under Leases held by Grantor and not applied towards Rent) derived from the Property and Loss Proceeds shall be utilized to fund the Sub-Accounts. Grantor shall cause Manager to collect all security deposits from tenants under valid Leases, which shall be held by Manager, as agent for Grantor, in accordance with applicable law and in a segregated demand deposit bank account at such commercial or savings bank or banks as may be reasonably satisfactory to Lender (the "Security Deposit Account"). Grantor shall notify Lender of any security deposits held as letters of credit and, upon Lender's request, such letters of credit shall be promptly delivered to Lender. Grantor shall have no right to withdraw funds from the Security Deposit Account; provided that, prior to

the occurrence of an Event of Default, Grantor may withdraw funds from the Security Deposit Account to refund or apply security deposits as required by the Leases or by applicable Legal Requirements. After the occurrence of an Event of Default, all withdrawals from the Security Deposit Account must be approved by Lender. All payments constituting Rent shall be delivered to Manager. Manager shall collect all Rent (other than Rent paid by each Credit Card Company directly to the Rent Account as provided below and Rent paid by tenants under Space Leases which shall be paid directly to the Rent Account pursuant to irrevocable direction letters in the form of **Exhibit E** attached hereto which Grantor shall give each tenant under a Space Lease, a copy of which shall be delivered to Lender promptly upon request therefor) and shall, within seven (7) days of the receipt thereof, deposit in the Rent Account, the name and address of the bank in which such account is located and the account number of which are to be identified in writing by Grantor to Lender, all Rent. Pursuant to the Rent Account Agreement of even date herewith, the bank in which the Rent Account is located has been instructed that (a) prior to receipt of a notice from Lender (a "Sweep Notice") that an O&M Operative Period has commenced or an Event of Default exists, all funds in the Rent Account shall be transferred to the Grantor Account on a daily basis and (b) from and after the receipt of a Sweep Notice from Lender, (i) all funds deposited in the Rent Account other than Property Available Cash, or, (ii) if an Event of Default exists, all funds deposited into the Rent Account, shall be automatically transferred through automated clearing house funds ("ACH") or by Federal wire to the Central Account prior to 2:00 p.m. (New York City time) on a daily basis until receipt by such bank of a written notice from Lender revoking the Sweep Notice. Additionally, Grantor shall, or shall cause Manager to send to each respective credit card company or credit card clearing bank with which Grantor or Manager has entered into merchant's agreements (each, a "Credit Card Company") a direction letter in the form of **Exhibit G** annexed hereto and made a part hereof (the "Credit Card Payment Direction Letter") directing such Credit Card Company to make all payments due in connection with goods or services furnished at or in connection with the Property by Federal wire or through ACH directly to the Rent Account. Without the prior written consent of Lender, neither Grantor nor Manager shall (i) terminate, amend, revoke or modify any Credit Card Payment Direction Letter in any manner or (ii) direct or cause any Credit Card Company to pay any amount in any manner other than as specifically provided in the related Credit Card Payment Direction Letter. Lender may elect to change the financial institution in which the Central Account shall be maintained; however, Lender shall give Grantor and the bank in which the Rent Account is located not fewer than five (5) Business Days' prior notice of such change. Neither Grantor nor Manager shall change such bank or the Rent Account without the prior written consent of Lender. All fees and charges of the bank(s) in which the Rent Account and the Central Account are located shall be paid by Grantor.

Section 5.02. Establishment of Accounts. Lender has established the Escrow Accounts and the Central Account in the name of Lender and the Rent Account in the joint name of Grantor, Manager and Lender, as secured party. The Escrow Accounts, the Rent Account and the Central Account shall be under the sole dominion and control of Lender and funds held therein shall not constitute trust funds. Grantor hereby irrevocably directs and authorizes Lender to withdraw funds from the Rent Account, and to deposit into and withdraw funds from the Central Account and the Escrow Accounts, all in accordance with the terms and conditions of this Security Instrument. Grantor shall have no right of withdrawal in respect of the Rent

Account, the Central Account or the Escrow Accounts except as specifically provided herein. Each transfer of funds to be made hereunder shall be made only to the extent that funds are on deposit in the Rent Account, the Central Account or the affected Sub-Account or Escrow Account, and Lender shall have no responsibility to make additional funds available in the event that funds on deposit are insufficient. The Central Account shall contain the Basic Carrying Costs Sub-Account, the Debt Service Payment Sub-Account, the Recurring Replacement Reserve Sub-Account, the Operation and Maintenance Expense Sub-Account and the Curtailment Reserve Sub-Account, each of which accounts shall be Eligible Accounts or book-entry sub-accounts of an Eligible Account (each a "Sub-Account" and collectively, the "Sub-Accounts") to which certain funds shall be allocated and from which disbursements shall be made pursuant to the terms of this Security Instrument. Sums held in the Escrow Accounts may be commingled with other monies held by Lender.

Section 5.03. Permitted Investments. All sums deposited into the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account and the Engineering Escrow Account shall be held in an interest bearing account but Grantor acknowledges that Lender makes no representation or warranty as to the rate of return. Lender shall not have any liability for any loss in investments of funds in the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account or the Engineering Escrow Account and no such loss shall affect Grantor's obligation to fund, or liability for funding, the Central Account and each Sub-Account and Escrow Account, as the case may be. Grantor agrees that Lender shall include all such earnings on the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account and the Engineering Escrow Account as income of Grantor (and, if Grantor is a partnership, limited liability company or other pass-through entity, the partners, members or beneficiaries of Grantor, as the case may be) for federal and applicable state and local tax purposes. All interest paid or other earnings on funds deposited into the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account and the Engineering Escrow Account made hereunder shall be deposited into the Central Account and shall be allocated to the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account or the Engineering Escrow Account, as applicable. Grantor shall pay all costs, fees and expenses incurred in connection with the establishment and maintenance of, or the disbursement from, the Basic Carrying Costs Escrow Account, Recurring Replacement Reserve Escrow Account and the Engineering Escrow Account, which sums shall be due and payable by Grantor upon demand and may be deducted by Lender from amounts on deposit in the Central Account or the Escrow Accounts.

Section 5.04. Servicing Fees. At the option of Lender, the Loan may be serviced by a servicer (the "Servicer") selected by Lender and Lender may delegate all or any portion of its responsibilities under this Security Instrument to the Servicer. Grantor shall pay all servicing fees of Servicer, if any, charged in connection with any disbursement of funds from the Escrow Accounts pursuant to the Servicer's then standard conditions and rates.

Section 5.05. Monthly Funding of Sub-Accounts and Escrow Accounts. (a) On or before each Payment Date during the term of the Loan, commencing on the first (1st) Payment Date occurring after the month in which the Loan is initially funded, Grantor shall pay or cause to be

paid to the Central Account all sums required to be deposited in the Sub-Accounts pursuant to this Section 5.05(a) and all funds transferred or deposited into the Central Account shall be allocated among the Sub-Accounts as follows and in the following priority:

(i) first, to the Basic Carrying Costs Sub-Account, until an amount equal to the Basic Carrying Costs Monthly Installment for such Payment Date has been allocated to the Basic Carrying Costs Sub-Account;

(ii) second, to the Debt Service Payment Sub-Account, until an amount equal to the Required Debt Service Payment for such Payment Date has been allocated to the Debt Service Payment Sub-Account;

(iii) third, to the Recurring Replacement Reserve Sub-Account, until an amount equal to the Recurring Replacement Reserve Monthly Installment for such Payment Date has been allocated to the Recurring Replacement Reserve Sub-Account;

(iv) fourth, but only if an Event of Default exists, to the Operation and Maintenance Expense Sub-Account until an amount equal to the Cash Expenses, other than management fees payable to Affiliates of Grantor, for the Interest Accrual Period ending immediately prior to such Payment Date pursuant to the related Approved Annual Budget;

(v) fifth, but only if an Event of Default exists, to the Operation and Maintenance Expense Sub-Account until an amount equal to the amount, if any, of the Net Capital Expenditures for the Interest Accrual Period ending immediately prior to the Payment Date pursuant to the related Approved Annual Budget;

(vi) sixth, but only during an O&M Operative Period, to the Operation and Maintenance Expense Sub-Account until an amount equal to the amount, if any, of the Extraordinary Expenses approved by Lender for the Interest Accrual Period ending immediately prior to such Payment Date; and

(vii) seventh, but only during an O&M Operative Period, the balance, if any, to the Curtailment Reserve Sub-Account.

Provided that (I) no Event of Default has occurred and is continuing and (II) Lender has received the Manager Certification referred to in Section 2.09(d) hereof for the most recent period for which the same is due, Lender agrees that in each Interest Accrual Period any amounts deposited into or remaining in the Central Account after the Sub-Accounts have been funded as set forth in this Section 5.05(a) with respect to such Interest Accrual Period and any periods prior thereto, shall be disbursed by Lender to Grantor on each Payment Date applicable to such Interest Accrual Period. The balance of the funds distributed to Grantor after payment of all Operating Expenses by or on behalf of Grantor may be retained by Grantor. After the occurrence, and during the continuance, of an Event of Default, no funds held in the Central Account shall be distributed to, or withdrawn by, Grantor, and Lender shall have the right to

apply all or any portion of the funds held in the Central Account or any Sub-Account or any Escrow Account to the Debt in Lender's sole discretion.

(b) On each Payment Date, (i) sums held in the Basic Carrying Costs Sub-Account shall be transferred to the Basic Carrying Costs Escrow Account, (ii) sums held in the Debt Service Payment Sub-Account, together with any amounts deposited into the Central Account that are either (x) Loss Proceeds that Lender has elected to apply to reduce the Debt in accordance with the terms of Article III hereof or (y) excess Loss Proceeds remaining after the completion of any restoration required hereunder, shall be transferred to Lender to be applied towards the Required Debt Service Payment, (iii) sums held in the Recurring Replacement Reserve Sub-Account shall be transferred to the Recurring Replacement Reserve Escrow Account, (iv) sums held in the Operation and Maintenance Expense Sub-Account shall be transferred to the Operation and Maintenance Expense Escrow Account and (v) sums held in the Curtailment Reserve Sub-Account shall be transferred to the Curtailment Reserve Escrow Account.

Section 5.06. Payment of Basic Carrying Costs. Grantor hereby agrees to pay all Basic Carrying Costs (without regard to the amount of money in the Basic Carrying Costs Sub-Account or the Basic Carrying Costs Escrow Account). At least ten (10) Business Days prior to the due date of any Basic Carrying Costs, and not more frequently than once each month, Grantor may notify Lender in writing and request that Lender pay such Basic Carrying Costs on behalf of Grantor on or prior to the due date thereof, and, provided that no Event of Default has occurred and that there are sufficient funds available in the Basic Carrying Costs Escrow Account, Lender shall make such payments out of the Basic Carrying Costs Escrow Account before same shall be delinquent. Together with each such request, Grantor shall furnish Lender with bills and all other documents necessary, as reasonably determined by Lender, for the payment of the Basic Carrying Costs which are the subject of such request. Grantor's obligation to pay (or cause Lender to pay) Basic Carrying Costs pursuant to this Security Instrument shall include, to the extent permitted by applicable law, Impositions resulting from future changes in law which impose upon Lender an obligation to pay any property taxes or other Impositions or which otherwise adversely affect Lender's interests. Notwithstanding the foregoing, provided that no Event of Default has occurred and is continuing, in the event that Lender receives a tax bill directly from a Governmental Authority relating to any Real Estate Taxes, to the extent sums are then on deposit in the Basic Carrying Costs Escrow Account relating to the Real Estate Taxes billed in such tax bill, Lender shall apply such amounts contained in the Basic Carrying Costs Escrow Account to pay all sums due thereunder prior to the date such Real Estate Taxes would accrue late charges or interest thereon or within ten (10) Business Days of the receipt of such tax bill, whichever is later. In making any payment of Real Estate Taxes, Lender may rely on any bill, statement or estimate obtained from the applicable Governmental Authority without inquiry into the accuracy of such bill, statement or estimate or into the validity of any Imposition or claim with respect thereto.

Provided that no Event of Default shall have occurred, all funds deposited into the Basic Carrying Costs Escrow Account shall be held by Lender pursuant to the provisions of this Security Instrument and shall be applied in payment of Basic Carrying Costs in accordance with

the terms hereof. Should an Event of Default occur, the sums on deposit in the Basic Carrying Costs Sub-Account and the Basic Carrying Costs Escrow Account may be applied by Lender in payment of any Basic Carrying Costs or may be applied to the payment of the Debt or any other charges affecting all or any portion of the Cross-collateralized Properties as Lender in its sole discretion may determine; provided, however, that no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

Section 5.07. Intentionally Omitted.

Section 5.08. Recurring Replacement Reserve Escrow Account. Grantor hereby agrees to pay all Recurring Replacement Expenditures with respect to the Property (without regard to the amount of money then available in the Recurring Replacement Reserve Sub-Account or the Recurring Replacement Reserve Escrow Account). Provided that Lender has received written notice from Grantor at least five (5) Business Days prior to the due date of any payment relating to Recurring Replacement Expenditures and not more frequently than once each month, and further provided that no Event of Default has occurred, that there are sufficient funds available in the Recurring Replacement Reserve Escrow Account and Grantor shall have theretofore furnished Lender with lien waivers, copies of bills, invoices and other reasonable documentation as may be required by Lender to establish that the Recurring Replacement Expenditures which are the subject of such request represent amounts due for completed or partially completed capital work and improvements performed at the Property, Lender shall make such payments out of the Recurring Replacement Reserve Escrow Account.

Provided that no Event of Default shall have occurred, all funds deposited into the Recurring Replacement Reserve Escrow Account shall be held by Lender pursuant to the provisions of this Security Instrument and shall be applied in payment of Recurring Replacement Expenditures. Should an Event of Default occur, the sums on deposit in the Recurring Replacement Reserve Sub-Account and the Recurring Replacement Reserve Escrow Account may be applied by Lender in payment of any Recurring Replacement Expenditures or may be applied to the payment of the Debt or any other charges affecting all or any portion of the Cross-collateralized Properties, as Lender in its sole discretion may determine; provided, however, that no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

Section 5.09. Operation and Maintenance Expense Escrow Account. Grantor hereby agrees to pay all Operating Expenses with respect to the Property (without regard to the amount of money then available in the Operation and Maintenance Expense Sub-Account or the Operation and Maintenance Expense Escrow Account). All funds allocated to the Operation and Maintenance Expense Escrow Account shall be held by Lender pursuant to the provisions of this Security Instrument. Any sums held in the Operation and Maintenance Expense Escrow Account shall be disbursed to Grantor within five (5) Business Days of receipt by Lender from Grantor of (a) a written request for such disbursement which shall indicate the Operating Expenses (exclusive of Basic Carrying Costs and any management fees payable to Grantor, or to any Affiliate of Grantor) for which the requested disbursement is to pay and (b) an Officer's Certificate stating that no Operating Expenses with respect to the Property are more than sixty

(60) days past due; provided, however, in the event that Grantor legitimately disputes any invoice for an Operating Expense, and (i) no Event of Default has occurred and is continuing hereunder, (ii) Grantor shall have set aside adequate reserves for the payment of such disputed sums together with all interest and late fees thereon, (iii) Grantor has complied with all the requirements of this Security Instrument relating thereto, and (iv) the contesting of such sums shall not constitute a default under any other instrument, agreement, or document to which Grantor is a party, then Grantor may, after certifying to Lender as to items (i) through (iv) hereof, contest such invoice. Together with each such request, Grantor shall furnish Lender with bills and all other documents necessary for the payment of the Operating Expenses which are the subject of such request. Grantor may request a disbursement from the Operation and Maintenance Expense Escrow Account no more than one (1) time per calendar month. Should an Event of Default occur and be continuing, the sums on deposit in the Operation and Maintenance Expense Sub-Account or the Operation and Maintenance Expense Escrow Account may be applied by Lender in payment of any Operating Expenses for the Property or may be applied to the payment of the Debt or any other charges affecting all or any portion of the Cross-collateralized Properties as Lender, in its sole discretion, may determine; provided, however, that no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

Section 5.10. Intentionally Omitted.

Section 5.11. Curtailment Reserve Escrow Account. Funds deposited into the Curtailment Reserve Escrow Account shall be held by Lender in the Curtailment Reserve Escrow Account as additional security for the Loan until the Loan has been paid in full unless released by Lender to Grantor earlier as provided below. Lender may, in its sole and absolute discretion, after giving notice to Grantor, apply any funds on deposit in the Curtailment Reserve Escrow Account towards the Debt. All sums in the Curtailment Reserve Escrow Account which are applied to the payment of the Loan shall be applied only on a Payment Date. Additionally, provided that no Event of Default has occurred and is continuing, and no O&M Operative Period has existed for two (2) consecutive calendar quarters, Lender shall, upon written request from Grantor, release all sums contained in the Curtailment Reserve Escrow Account to Grantor. Should an Event of Default occur, the sums on deposit in the Curtailment Reserve Sub-Account and the Curtailment Reserve Escrow Account may be applied by Lender to the payment of the Debt or other charges affecting all or any portion of the Cross-collateralized Properties, as Lender, in its sole discretion, may determine; provided, however, that no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

Section 5.12. Performance of Engineering Work. (a) Grantor shall promptly commence and diligently thereafter pursue to completion the Required Engineering Work. In the event the Required Engineering Work is not completed prior to the date set forth in that certain Conversion and PIP Work Escrow Agreement of even date herewith among Commonwealth Land Title Insurance Company, Operating Tenant, the Person from which Borrower acquired title to the Property and White Lodging Services Corporation (the "CAP Escrow Agreement"), any sums released to Grantor or its Affiliates pursuant to the CAP Escrow Agreement shall be paid over to

Lender and deposited into the Engineering Escrow Account. In the event the Required Engineering Work is not completed prior to the first (1st) anniversary of the Closing Date or if Lender does not have a perfected first priority lien over sums held pursuant to the CAP Escrow Agreement, Grantor shall deliver to Lender an amount to be deposited into the Engineering Escrow Account equal to one hundred twenty percent (120%) of the amount estimated by Lender, in its reasonable discretion, necessary to complete the Required Engineering Work less any sums then on deposit in the Engineering Escrow Account. After Grantor completes an item of Required Engineering Work, Grantor may submit to Lender an invoice therefor with lien waivers and a statement from the Engineer, reasonably acceptable to Lender, indicating that the portion of the Required Engineering Work in question has been completed in compliance with all Legal Requirements, and Lender shall, within twenty (20) days thereafter, although in no event more frequently than once each month, reimburse such amount to Grantor from the Engineering Escrow Account; provided, however, that Grantor shall not be reimbursed more than the amount set forth on **Exhibit D** hereto as the amount allocated to the portion of the Required Engineering Work for which reimbursement is sought or for any Required Engineering Work with respect to which sums are held under the CAP Escrow Agreement.

(b) From and after the date all of the Required Engineering Work is completed, Grantor may submit a written request, which request shall be delivered together with final lien waivers and a statement from the Engineer, as the case may be, reasonably acceptable to Lender, indicating that all of the Required Engineering Work has been completed in compliance with all Legal Requirements, and Lender shall, within twenty (20) days thereafter, disburse any balance of the Engineering Escrow Account to Grantor. Should an Event of Default occur, the sums on deposit in the Engineering Escrow Account may be applied by Lender in payment of any Required Engineering Work or may be applied to the payment of the Debt or any other charges affecting all or any portion of the Cross-collateralized Properties, as Lender in its sole discretion may determine; provided, however, that no such application shall be deemed to have been made by operation of law or otherwise until actually made by Lender as herein provided.

Section 5.13. Loss Proceeds. In the event of a casualty to the Property, unless Lender elects, or is required pursuant to Article III hereof to make all of the Insurance Proceeds available to Grantor for restoration, Lender and Grantor shall cause all such Insurance Proceeds to be paid by the insurer directly to the Central Account, whereupon Lender shall, after deducting Lender's costs of recovering and paying out such Insurance Proceeds, including without limitation, reasonable attorneys' fees, apply same to reduce the Debt in accordance with the terms of the Note; provided, however, that if Lender elects, or is deemed to have elected, to make the Insurance Proceeds available for restoration, all Insurance Proceeds in respect of rent loss, business interruption or similar coverage shall be maintained in the Central Account, to be applied by Lender in the same manner as Rent received with respect to the operation of the Property; provided, further, however, that in the event that the Insurance Proceeds with respect to such rent loss, business interruption or similar insurance policy are paid in a lump sum in advance, Lender shall hold such Insurance Proceeds in a segregated interest-bearing escrow account, which shall be an Eligible Account, shall estimate, in Lender's reasonable discretion, the number of months required for Grantor to restore the damage caused by the casualty, shall divide the aggregate rent loss, business interruption or similar Insurance Proceeds by such

number of months, and shall disburse from such bank account into the Central Account each month during the performance of such restoration such monthly installment of said Insurance Proceeds. In the event that Insurance Proceeds are to be applied toward restoration, Lender shall hold such funds in a segregated bank account at the Bank, which shall be an Eligible Account, and shall disburse same in accordance with the provisions of Section 3.04 hereof. Unless Lender elects, or is required pursuant to Section 6.01 hereof to make all of the Condemnation Proceeds available to Grantor for restoration, Lender and Grantor shall cause all such Condemnation Proceeds to be paid to the Central Account, whereupon Lender shall, after deducting Lender's costs of recovering and paying out such Condemnation Proceeds, including without limitation, reasonable attorneys' fees, apply same to reduce the Debt in accordance with the terms of the Note; provided, however, that any Condemnation Proceeds received in connection with a temporary Taking shall be maintained in the Central Account, to be applied by Lender in the same manner as Rent received with respect to the operation of the Property; provided, further, however, that in the event that the Condemnation Proceeds of any such temporary Taking are paid in a lump sum in advance, Lender shall hold such Condemnation Proceeds in a segregated interest-bearing bank account, which shall be an Eligible Account, shall estimate, in Lender's reasonable discretion, the number of months that the Property shall be affected by such temporary Taking, shall divide the aggregate Condemnation Proceeds in connection with such temporary Taking by such number of months, and shall disburse from such bank account into the Central Account each month during the pendency of such temporary Taking such monthly installment of said Condemnation Proceeds. In the event that Condemnation Proceeds are to be applied toward restoration, Lender shall hold such funds in a segregated bank account at the Bank, which shall be an Eligible Account, and shall disburse same in accordance with the provisions of Section 3.04 hereof. If any Loss Proceeds are received by Grantor, such Loss Proceeds shall be received in trust for Lender, shall be segregated from other funds of Grantor, and shall be forthwith paid into the Central Account, or paid to Lender to hold in a segregated bank account at the Bank, in each case to be applied or disbursed in accordance with the foregoing. Any Loss Proceeds made available to Grantor for restoration in accordance herewith, to the extent not used by Grantor in connection with, or to the extent they exceed the cost of, such restoration, shall be deposited into the Central Account, whereupon Lender shall apply the same to reduce the Debt in accordance with the terms of the Note.

ARTICLE VI: CONDEMNATION

Section 6.01. Condemnation. (a) Grantor shall notify Lender promptly of the commencement or threat of any Taking of the Property or any portion thereof. Lender is hereby irrevocably appointed as Grantor's attorney-in-fact, coupled with an interest, with exclusive power to collect, receive and retain the proceeds of any such Taking and to make any compromise or settlement in connection with such proceedings (subject to Grantor's reasonable approval, except after the occurrence of an Event of Default, in which event Grantor's approval shall not be required), subject to the provisions of this Security Instrument; provided, however, that Grantor may participate in any such proceedings and shall be authorized and entitled to compromise or settle any such proceeding with respect to Condemnation Proceeds in an amount less than five percent (5%) of the Allocated Loan Amount. Grantor shall execute and deliver to Lender any and all instruments reasonably required in connection with any such proceeding

promptly after request therefor by Lender. Except as set forth above, Grantor shall not adjust, compromise, settle or enter into any agreement with respect to such proceedings without the prior consent of Lender. All Condemnation Proceeds are hereby assigned to and shall be paid to Lender to be applied in accordance with the terms hereof. With respect to Condemnation Proceeds in an amount in excess of five percent (5%) of the Allocated Loan Amount, Grantor hereby authorizes Lender to compromise, settle, collect and receive such Condemnation Proceeds, and to give proper receipts and acquittance therefor. Subject to the provisions of this Article VI, Lender may apply such Condemnation Proceeds (less any cost to Lender of recovering and paying out such proceeds, including, without limitation, reasonable attorneys' fees and disbursements and costs allocable to inspecting any repair, restoration or rebuilding work and the plans and specifications therefor) toward the payment of the Debt or to allow such proceeds to be used for the Work.

(b) "Substantial Taking" shall mean (i) a Taking of such portion of the Property that would, in Lender's reasonable discretion, leave remaining a balance of the Property which would not under then current economic conditions, applicable Development Laws and other applicable Legal Requirements, permit the restoration of the Property so as to constitute a complete, rentable facility of the same sort as existed prior to the Taking, having adequate ingress and egress to the Property, capable of producing a projected Net Operating Income (as reasonably determined by Lender) yielding a projected Debt Service Coverage therefrom for the next two (2) years of not less than the Required Debt Service Coverage, (ii) a Taking which occurs less than two (2) years prior to the Maturity Date, (iii) a Taking which Lender is not reasonably satisfied could be restored within twelve (12) months and at least six (6) months prior to the Maturity Date or (iv) a Taking of more than fifteen percent (15%) of the reasonably estimated fair market value of the Property.

(c) In the case of a Substantial Taking, Condemnation Proceeds shall be payable to Lender in reduction of the Debt but without any prepayment fee or charge of any kind and, if Grantor elects to apply any Condemnation Proceeds it may receive pursuant to this Security Instrument to the payment of the Debt, Grantor may prepay the balance of the Debt without any prepayment fee or charge of any kind.

(d) In the event of a Taking which is less than a Substantial Taking, Grantor at its sole cost and expense (whether or not the award shall have been received or shall be sufficient for restoration) shall proceed diligently to restore, or cause the restoration of, the remaining Improvements not so taken, to maintain a complete, rentable, self-contained fully operational facility of the same sort as existed prior to the Taking in as good a condition as is reasonably possible. In the event of such a Taking, Lender shall receive the Condemnation Proceeds and shall pay over the same:

(i) first, provided no Default shall have occurred, to Grantor to the extent of any portion of the award as may be necessary to pay the reasonable cost of restoration of the Improvements remaining, and

(ii) second, to Lender, in reduction of the Debt without any prepayment premium or charge of any kind.

If one or more Takings in the aggregate create a Substantial Taking, then, in such event, the sections of this Article VI above applicable to Substantial Takings shall apply.

(e) In the event Lender is obligated to or elects to make Condemnation Proceeds available for the restoration or rebuilding of the Property, such proceeds shall be disbursed in the manner and subject to the conditions set forth in Section 3.04(b) hereof. If, in accordance with this Article VI, any Condemnation Proceeds are used to reduce the Debt, they shall be applied in accordance with the provisions of the Note. Grantor shall promptly execute and deliver all instruments requested by Lender for the purpose of confirming the assignment of the Condemnation Proceeds to Lender. Application of all or any part of the Condemnation Proceeds to the Debt shall be made in accordance with the provisions of Sections 3.06 and 3.07 hereof. No application of the Condemnation Proceeds to the reduction of the Debt shall have the effect of releasing the lien of this Security Instrument until the remainder of the Debt has been paid in full. In the case of any Taking, Lender, to the extent that Lender has not been reimbursed by Grantor, shall be entitled, as a first priority out of any Condemnation Proceeds, to reimbursement for all costs, fees and expenses reasonably incurred in the determination and collection of any Condemnation Proceeds. All Condemnation Proceeds deposited with Lender pursuant to this Section, until expended or applied as provided herein, shall be held in accordance with Section 3.04(b) hereof and shall constitute additional security for the payment of the Debt and the payment and performance of Grantor's obligations, but Lender shall not be deemed a trustee or other fiduciary with respect to its receipt of such Condemnation Proceeds or any part thereof. All awards so deposited with Lender shall be held by Lender in an Eligible Account, but Lender makes no representation or warranty as to the rate or amount of interest, if any, which may accrue on any such deposit and shall have no liability in connection therewith. For purposes hereof, any reference to the award shall be deemed to include interest, if any, which has accrued thereon.

ARTICLE VII: LEASES AND RENTS

Section 7.01. Assignment. (a) Grantor does hereby bargain, sell, assign and set over unto Lender, all of Grantor's interest in the Leases and Rents. The assignment of Leases and Rents in this Section 7.01 is an absolute, unconditional and present assignment from Grantor to Lender and not an assignment for security and the existence or exercise of Grantor's revocable license to collect Rent shall not operate to subordinate this assignment to any subsequent assignment. The exercise by Lender of any of its rights or remedies pursuant to this Section 7.01 shall not be deemed to make Lender a mortgagee-in-possession. In addition to the provisions of this Article VII, Grantor shall comply with all terms, provisions and conditions of the Assignment.

(b) So long as there shall exist and be continuing no Event of Default, Grantor shall have a revocable license to take all actions with respect to all Leases and Rents, present and future, including the right to collect and use the Rents, subject to the terms of this Security Instrument and the Assignment.

(c) In a separate instrument Grantor shall, as requested from time to time by Lender, assign to Lender or its nominee by specific or general assignment, any and all Leases, such

assignments to be in form and content reasonably acceptable to Lender, but subject to the provisions of Section 7.01(b) hereof. Grantor agrees to deliver to Lender, within thirty (30) days after Lender's request, a true and complete copy of every Lease.

(d) The rights of Lender contained in this Article VII, the Assignment or any other assignment of any Lease shall not result in any obligation or liability of Lender to Grantor or any lessee under a Lease or any party claiming through any such lessee.

(e) At any time after an Event of Default, the license granted hereinabove may be revoked by Lender, and Lender or a receiver appointed in accordance with this Security Instrument may enter upon the Property, and collect, retain and apply the Rents toward payment of the Debt in such priority and proportions as Lender in its sole discretion shall deem proper.

(f) In addition to the rights which Lender may have herein, upon the occurrence of any Event of Default, Lender, at its option, may require Grantor to pay monthly in advance to Lender, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of such part of the Property as may be used and occupied by Grantor and may require Grantor to vacate and surrender possession of the Property to Lender or to such receiver and, in default thereof, Grantor may be evicted by summary proceedings or otherwise.

Section 7.02. Management of Property. (a) Grantor shall manage the Property or cause the Property to be managed in a manner which is consistent with the Approved Manager Standard. All Space Leases shall provide for rental rates comparable to then existing local market rates and terms and conditions which constitute good and prudent business practice and are consistent with prevailing market terms and conditions, and shall be arms-length transactions. All Leases shall be on a form previously approved by Lender and shall provide that they are subordinate to this Security Instrument and that the lessees thereunder attorn to Lender. Grantor shall deliver copies of all Leases, amendments, modifications and renewals thereof to Lender. All proposed Leases for the Property shall be subject to the prior written approval of Lender, provided, however that Grantor may enter into new leases with unrelated third parties without obtaining the prior consent of Lender provided that: (i) the proposed leases conform with the requirements of this Section 7.02; (ii) the space to be leased pursuant to such proposed lease together with any space leased or to be leased to an Affiliate of the tenant thereunder does not exceed 5,000 square feet; and (iii) the term of the proposed lease inclusive of all extensions and renewals, does not exceed five (5) years.

(b) Grantor (i) shall observe and perform all of its material obligations under the Leases pursuant to applicable Legal Requirements and shall not do or permit to be done anything to impair the value of the Leases as security for the Debt; (ii) shall promptly send copies to Lender of all notices of default which Grantor shall receive under the Leases; (iii) shall, consistent with the Approved Manager Standard, enforce all of the terms, covenants and conditions contained in the Leases to be observed or performed; (iv) shall not collect any of the Rents under the Leases more than one (1) month in advance (except that Grantor may collect in advance such security deposits as are permitted pursuant to applicable Legal Requirements and are commercially reasonable in the prevailing market); (v) shall not execute any other assignment of lessor's interest in the Leases or the Rents except as otherwise expressly permitted

pursuant to this Security Instrument; (vi) shall not cancel or terminate any of the Leases or accept a surrender thereof in any manner inconsistent with the Approved Manager Standard; (vii) shall not convey, transfer or suffer or permit a conveyance or transfer of all or any part of the Premises or the Improvements or of any interest therein so as to effect a merger of the estates and rights of, or a termination or diminution of the obligations of, lessees thereunder; (viii) shall not alter, modify or change the terms of any guaranty of any Major Space Lease or cancel or terminate any such guaranty; (ix) shall, in accordance with the Approved Manager Standard, make all reasonable efforts to seek lessees for space as it becomes vacant and enter into Leases in accordance with the terms hereof; (x) shall not materially modify, alter or amend any Major Space Lease or Property Agreement without Lender's consent, which consent will not be unreasonably withheld or delayed; (xi) shall notify Lender promptly if any Pad Owner shall cease business operations or of the occurrence of any event of which it becomes aware affecting a Pad Owner or its property which might have any material effect on the Property; and (xii) shall, without limitation to any other provision hereof, execute and deliver at the request of Lender all such further assurances, confirmations and assignments in connection with the Property as are required herein and as Lender shall from time to time reasonably require.

(c) All security deposits of lessees, whether held in cash or any other form, shall be treated by Grantor as trust funds, shall not be commingled with any other funds of Grantor and, if cash, shall be deposited by Grantor in the Security Deposit Account. Any bond or other instrument which Grantor is permitted to hold in lieu of cash security deposits under applicable Legal Requirements shall be maintained in full force and effect unless replaced by cash deposits as hereinabove described, shall be issued by a Person reasonably satisfactory to Lender, shall, if permitted pursuant to Legal Requirements, at Lender's option, name Lender as payee or mortgagee thereunder or be fully assignable to Lender and shall, in all respects, comply with applicable Legal Requirements and otherwise be reasonably satisfactory to Lender. Grantor shall, upon request, provide Lender with evidence reasonably satisfactory to Lender of Grantor's compliance with the foregoing. Following the occurrence and during the continuance of any Event of Default, Grantor shall, upon Lender's request, if permitted by applicable Legal Requirements, turn over the security deposits (and any interest thereon) to Lender to be held by Lender in accordance with the terms of the Leases and all Legal Requirements.

(d) If requested by Lender, Grantor shall furnish, or shall cause the applicable lessee to furnish, to Lender financial data and/or financial statements in accordance with Regulation AB for any lessee of the Property if, in connection with a Securitization, Lender expects there to be, with respect to such lessee or any group of affiliated lessees, a concentration within all of the mortgage loans included or expected to be included, as applicable, in such Securitization such that such lessee or group of affiliated lessees would constitute a Significant Obligor; provided,

however, that in the event the related Space Lease does not require the related lessee to provide the foregoing information, Grantor shall use commercially reasonable efforts to cause the applicable lessee to furnish such information.

(e) Grantor covenants and agrees with Lender that (i) the Property will be managed at all times by Manager pursuant to the management agreement in the form approved by Lender (the "Management Agreement"), (ii) after Grantor has knowledge of a fifty percent (50%) or

more change in control of the ownership of Manager, Grantor will promptly give Lender notice thereof (a "Manager Control Notice") and (iii) the Management Agreement may be terminated by Lender at any time for cause (including, but not limited to, Manager's gross negligence, misappropriation of funds, willful misconduct or fraud) or at any time following (A) the occurrence of an Event of Default, or (B) the receipt of a Manager Control Notice and a substitute managing agent shall be appointed by Grantor, subject to Lender's prior written approval, which may be given or withheld in Lender's sole discretion and which may be conditioned on, inter alia, a letter from each Rating Agency confirming that any rating issued by the Rating Agency in connection with a Securitization will not, as a result of the proposed change of Manager, be downgraded from the then current ratings thereof, qualified or withdrawn. Grantor may from time to time appoint a successor manager to manage the Property with Lender's prior written consent which consent shall not be unreasonably withheld or delayed, provided that any such successor manager shall be a reputable management company with experience in managing properties similar to the Property and acceptable to the franchisor under the Franchise Agreement in its reasonable discretion which meets the Approved Manager Standard and each Rating Agency shall have confirmed in writing that any rating issued by the Rating Agency in connection with a Securitization will not, as a result of the proposed change of Manager, be downgraded from the then current ratings thereof, qualified or withdrawn. Grantor further covenants and agrees that Grantor shall require Manager (or any successor managers) to maintain at all times during the term of the Loan worker's compensation insurance as required by Governmental Authorities.

(f) The Franchise Agreement, pursuant to which Grantor has the right to operate the hotel located on the Premises under a name and/or hotel system controlled by such franchisor, is in full force and effect and there is no default, breach or violation existing thereunder by any party thereto and no event has occurred (other than payments due but not yet delinquent) that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation by any party thereunder. Grantor shall (i) pay or shall cause to be paid all sums required to be paid by Grantor under the Franchise Agreement and Operating Lease, (ii) diligently perform and observe all of the terms, covenants and conditions of the Franchise Agreement on the part of Grantor to be performed and observed to the end that all things shall be done which are necessary to keep unimpaired the rights of Grantor under the Franchise Agreement and Operating Lease, (iii) promptly notify Lender of the giving of any notice to Grantor of any default by Grantor in the performance or observance of any of the terms, covenants or conditions of the Franchise Agreement or Operating Lease on the part of Grantor to be performed and observed and deliver to Lender a true copy of each such notice, and (iv) promptly deliver to Lender a copy of each financial statement, business plan, capital expenditures plan, notice, report and estimate received by it under the Franchise Agreement or the Management Agreement or the Operating Lease. Grantor shall not, without the prior consent of the Lender, surrender the Franchise Agreement or Operating Lease or terminate or cancel the Franchise Agreement or modify, change, supplement, alter or amend the Franchise Agreement or Operating Lease, in any respect, either orally or in writing, and Grantor hereby assigns to Lender as further security for the payment of the Debt and for the performance and observance of the terms, covenants and conditions of this Security Instrument, all the rights, privileges and prerogatives of Grantor to surrender the Franchise Agreement or Operating Lease or to

terminate, cancel, modify, change, supplement, alter or amend the Franchise Agreement or Operating Lease in any respect, and any such surrender of the Franchise Agreement or termination, cancellation, modification, change, supplement, alteration or amendment of the Franchise Agreement or Operating Lease without the prior consent of Lender shall be void and of no force and effect. If Grantor shall default in the performance or observance of any material term, covenant or condition of the Franchise Agreement or Operating Lease on the part of Grantor to be performed or observed, then, without limiting the generality of the other provisions of this Security Instrument, and without waiving or releasing Grantor from any of its obligations hereunder, Lender shall have the right, but shall be under no obligation, to pay any sums and to perform any act or take any action as may be appropriate to cause all the terms, covenants and conditions of the Franchise Agreement or Operating Lease on the part of Grantor to be performed or observed to be promptly performed or observed on behalf of Grantor, to the end that the rights of Grantor in, to and under the Franchise Agreement and Operating Lease shall be kept unimpaired and free from default. Lender and any Person designated by Lender shall have, and are hereby granted, the right to enter upon the Property at any time and from time to time for the purpose of taking any such action. If the franchisor under the Franchise Agreement or lessee under an Operating Lease shall deliver to Lender a copy of any notice sent to Grantor of default under the Franchise Agreement or Operating Lease, as applicable, such notice shall constitute full protection to Lender for any action to be taken by Lender in good faith, in reliance thereon. Grantor shall, from time to time, use its best efforts to obtain from the franchisor under the Franchise Agreement such certificates of estoppel with respect to compliance by Grantor with the terms of the Franchise Agreement as may be requested by Lender. Grantor shall exercise each individual option, if any, to extend or renew the term of the Franchise Agreement within four (4) months of the last day upon which any such option may be exercised, unless Lender consents to the non-renewal of such Franchise Agreement in writing, and Grantor hereby expressly authorizes and appoints Lender its attorney-in-fact to exercise any such option in the name of and upon behalf of Grantor, which power of attorney shall be irrevocable and shall be deemed to be coupled with an interest.

(g) Except in the ordinary course of Grantor's operations, Grantor covenants that it shall not, nor permit Manager, to sell or deliver rooms or suites and accept payment therefor for more than thirty (30) days in advance of delivery. Notwithstanding the foregoing and provided no Event of Default has occurred, payments more than (30) days in advance of delivery ("Lump Sum Advance Payments") may be accepted by Grantor or Manager, so long as Grantor shall or shall cause Manager to deposit such payments, in the Rent Account as provided in Section 5.01 hereof. Lender shall disburse from the Rent Account into the Central Account each month that portion of the Lump Sum Advance Payments on deposit in the Rent Account equal to the aggregate of Lump Sum Advance Payments divided by the number of months for which such payments were accepted by Grantor or Manager.

(h) Grantor shall fund and operate and shall cause Manager to operate, the Property in a manner consistent with a hotel of the same type and category as the Property and in compliance with any Franchise Agreement.

(i) Grantor shall maintain or cause Manager to maintain Inventory in kind and amount sufficient to meet hotel industry standards for hotels comparable to the hotel located at the Premises and at levels sufficient for the operation of the hotel located at the Premises at historic occupancy levels.

(j) Grantor shall deliver to Lender all notices of default or termination received by Grantor or Manager with respect to any licenses and permits, contracts, Property Agreements, Leases or insurance policies within three (3) Business Days of receipt of the same.

(k) Grantor shall not permit any Equipment or other personal property to be removed from the Property unless the removed item is consumed or sold in the ordinary course of business, removed temporarily for maintenance and repair, or, if removed permanently, replaced by an article of equivalent suitability and not materially less value, owned by Grantor free and clear of any lien.

ARTICLE VIII: MAINTENANCE AND REPAIR

Section 8.01. Maintenance and Repair of the Property; Alterations; Replacement of Equipment. Grantor hereby covenants and agrees:

(a) Grantor shall not (i) desert or abandon the Property, (ii) change the use of the Property or cause or permit the use or occupancy of any part of the Property to be discontinued if such discontinuance or use change would violate any zoning or other law, ordinance or regulation; (iii) consent to or seek any lowering of the zoning classification, or greater zoning restriction affecting the Property; or (iv) take any steps whatsoever to convert the Property, or any portion thereof, to a condominium or cooperative form of ownership.

(b) Grantor shall, at its expense, (i) take good care of the Property including grounds generally, and utility systems and sidewalks, roads, alleys, and curbs therein, and shall keep the same in good, safe and insurable condition and in compliance with all applicable Legal Requirements, (ii) promptly make all repairs to the Property, above grade and below grade, interior and exterior, structural and nonstructural, ordinary and extraordinary, unforeseen and foreseen, and maintain the Property in a manner appropriate for the facility and (iii) not commit or suffer to be committed any waste of the Property or do or suffer to be done anything which will increase the risk of fire or other hazard to the Property or impair the value thereof. Grantor shall keep the sidewalks, vaults, gutters and curbs comprising, or adjacent to, the Property, clean and free from dirt, snow, ice, rubbish and obstructions. All repairs made by Grantor shall be made with first-class materials, in a good and workmanlike manner, shall be equal or better in quality and class to the original work and shall comply with all applicable Legal Requirements and Insurance Requirements. To the extent any of the above obligations are obligations of tenants under Space Leases or Pad Owners or other Persons under Property Agreements, Grantor may fulfill its obligations hereunder by causing such tenants, Pad Owners or other Persons, as the case may be, to perform their obligations thereunder. As used herein, the terms "repair" and "repairs" shall be deemed to include all necessary replacements.

(c) Grantor shall not demolish, remove, construct, or, except as otherwise expressly provided herein, restore, or alter the Property or any portion thereof; nor consent to or permit any such demolition, removal, construction, restoration, addition or alteration which would diminish the value of the Property without Lender's prior written consent in each instance (it being acknowledged that the work set forth in the CAP Escrow Agreement is consented to by Lender), which consent shall not be unreasonably withheld or delayed.

(d) Grantor represents and warrants to Lender that (i) there are no fixtures, machinery, apparatus, tools, equipment or articles of personal property attached or appurtenant to, or located on, or used in connection with the management, operation or maintenance of the Property, except for the Equipment and equipment leased by Grantor for the management, operation or maintenance of the Property in accordance with the Loan Documents; (ii) the Equipment and the leased equipment constitute all of the fixtures, machinery, apparatus, tools, equipment and articles of personal property necessary to the proper operation and maintenance of the Property; and (iii) all of the Equipment is free and clear of all liens, except for the lien of this Security Instrument and the Permitted Encumbrances. All right, title and interest of Grantor in and to all extensions, improvements, betterments, renewals and appurtenances to the Property hereafter acquired by, or released to, Grantor or constructed, assembled or placed by Grantor in the Property, and all changes and substitutions of the security constituted thereby, shall be and, in each such case, without any further mortgage, encumbrance, conveyance, assignment or other act by Lender or Grantor, shall become subject to the lien and security interest of this Security Instrument as fully and completely, and with the same effect, as though now owned by Grantor and specifically described in this Security Instrument, but at any and all times Grantor shall execute and deliver to Lender any documents Lender may reasonably deem necessary or appropriate for the purpose of specifically subjecting the same to the lien and security interest of this Security Instrument.

(e) Notwithstanding the provisions of this Security Instrument to the contrary, Grantor shall have the right, at any time and from time to time, to remove and dispose of Equipment which may have become obsolete or unfit for use or which is no longer useful in the management, operation or maintenance of the Property. Grantor shall promptly replace any such Equipment so disposed of or removed with other Equipment of equal value and utility, free of any security interest or superior title, liens or claims; except that, if by reason of technological or other developments, replacement of the Equipment so removed or disposed of is not necessary or desirable for the proper management, operation or maintenance of the Property, Grantor shall not be required to replace the same. All such replacements or additional equipment shall be deemed to constitute "Equipment" and shall be covered by the security interest herein granted.

ARTICLE IX: TRANSFER OR ENCUMBRANCE OF THE PROPERTY

Section 9.01. Other Encumbrances. Grantor shall not further encumber or permit the further encumbrance in any manner (whether by grant of a pledge, security interest or otherwise) of the Property or any part thereof or interest therein, including, without limitation, of the Rents therefrom. In addition, Grantor shall not further encumber and shall not permit the further encumbrance in any manner (whether by grant of a pledge, security interest or otherwise) of

Grantor or any direct or indirect interest in Grantor except as expressly permitted pursuant to this Security Instrument other than a Mez Loan.

Section 9.02. No Transfer. Grantor acknowledges that Lender has examined and relied on the expertise of Grantor and, if applicable, each General Partner, in owning and operating properties such as the Property in agreeing to make the Loan and will continue to rely on Grantor's ownership of the Property as a means of maintaining the value of the Property as security for repayment of the Debt and Grantor acknowledges that Lender has a valid interest in maintaining the value of the Property. Grantor shall not Transfer, nor permit any Transfer, without the prior written consent of Lender, which consent Lender may withhold in its sole and absolute discretion, subject to the following provisions of this Article IX. Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Debt immediately due and payable upon a Transfer without Lender's consent. This provision shall apply to every Transfer regardless of whether voluntary or not, or whether or not Lender has consented to any previous Transfer.

Section 9.03. Due on Sale. Lender may declare the Debt immediately due and payable upon any Transfer other than a Mez Loan or further encumbrance without Lender's consent without regard to whether any impairment of its security or any increased risk of default hereunder can be demonstrated. This provision shall apply to every Transfer or further encumbrance of the Property or any part thereof or interest in the Property or in Grantor regardless of whether voluntary or not, or whether or not Lender has consented to any previous Transfer or further encumbrance of the Property or interest in Grantor.

Section 9.04. Permitted Transfer. Notwithstanding the foregoing provisions of this Article IX, subsequent to the first (1st) anniversary of the Closing Date and prior to the date which is six (6) months prior to the Stated Maturity, a two time sale, conveyance or transfer of the Property in its entirety (hereinafter, "Sale") shall be permitted hereunder provided that each of the following terms and conditions are satisfied:

(a) no Default is then continuing hereunder or under any of the other Loan Documents;

(b) If the proposed Sale is to occur at any time after a Securitization, each Rating Agency shall have delivered written confirmation that any rating issued by such Rating Agency in connection with the Securitization will not, as a result of the proposed Sale, be downgraded from the then current ratings thereof, qualified or withdrawn; provided, however, that no request for consent to the Sale will be entertained by Lender if the proposed Sale is to occur within sixty (60) days of any contemplated sale of the Loan by Lender, whether in connection with a Securitization or otherwise;

(c) Grantor gives Lender written notice of the terms of the proposed Sale not less than thirty (30) days before the date on which such Sale is scheduled to close and, concurrently therewith, gives Lender (i) all such information concerning the proposed transferee of the Property (hereinafter, "Buyer") as Lender would require in evaluating an initial extension of credit to a borrower and Lender determines, in its reasonable discretion that the Buyer is

acceptable to Lender in all respects, it being acknowledge that, with respect to a Sale of the Cross-collateralized Properties, a Qualified Transferee shall be acceptable to Lender and, with respect to a Sale of less than all of the Cross-collateralized Properties, a Person which meets Lender's then current underwriting requirements for similar loans shall be acceptable to Lender, and (ii) a non-refundable application fee equal to $15,000;

(d) Grantor pays Lender, concurrently with the closing of such Sale, a non-refundable assumption fee in an amount equal to fourth-tenths of one percent (.40%) of the then outstanding Allocated Loan Amount for each Cross-collateralized Property which is included in the Sale together with all reasonable out-of-pocket costs and expenses, including, without limitation, reasonable attorneys' fees, incurred by Lender in connection with the Sale;

(e) Buyer assumes all of the obligations under the Loan Documents relating to the Property and, prior to or concurrently with the closing of such Sale, Buyer executes, without any cost or expense to Lender, such documents and agreements as Lender shall reasonably require to evidence and effectuate said assumption and delivers such legal opinions as Lender may require;

(f) Grantor and Buyer execute, without any cost or expense to Lender, new financing statements or financing statement amendments and any additional documents reasonably requested by Lender;

(g) Grantor delivers to Lender, without any cost or expense to Lender, such endorsements to Lender's title insurance policy, hazard insurance policy endorsements or certificates and other similar materials as Lender may deem necessary at the time of the Sale, all in form and substance satisfactory to Lender, including, without limitation, an endorsement or endorsements to Lender's title insurance policy insuring the lien of this Security Instrument, extending the effective date of such policy to the date of execution and delivery (or, if later, of recording) of the assumption agreement referenced above in subparagraph (e) of this Section, with no additional exceptions added to such policy, and insuring that fee simple title to the Property is vested in Buyer;

(h) Grantor executes and delivers to Lender, without any cost or expense to Lender, a release of Lender, its officers, directors, employees and agents, from all claims and liability relating to the transactions evidenced by the Loan Documents, through and including the date of the closing of the Sale, which agreement shall be in form and substance satisfactory to Lender

and shall be binding upon Buyer;

(i) subject to the provisions of Section 18.32 hereof, such Sale is not construed so as to relieve Grantor of any personal liability under the Note or any of the other Loan Documents for any acts or events occurring or obligations arising prior to or simultaneously with the closing of such Sale, and Grantor executes, without any cost or expense to Lender, such documents and agreements as Lender shall reasonably require to evidence and effectuate the ratification of said personal liability;

(j) such Sale is not construed so as to relieve any Guarantor of its obligations under any guaranty or indemnity agreement executed in connection with the Loan and each such

Guarantor executes, without any cost or expense to Lender, such documents and agreements as Lender shall reasonably require to evidence and effectuate the ratification of each such guaranty agreement, provided that if Buyer or a party associated with Buyer approved by Lender in its reasonable discretion assumes the obligations of the current Guarantor under its guaranty and Buyer or such party associated with Buyer, as applicable, executes, without any cost or expense to Lender, a new guaranty in similar form and substance to the existing guaranty and otherwise satisfactory to Lender, then Lender shall release the current Guarantor from all obligations arising under its guaranty after the closing of such Sale;

(k) Buyer is a Single Purpose Entity and Lender receives a non-consolidation opinion relating to Buyer from Buyer's counsel, which opinion is in form and substance acceptable to Lender; and

(l) In the event of a transfer of less than all of the Cross-collateralized Properties or Grantor's interest therein, in addition to the requirements of Section 9.04(a) - (k), Grantor shall be required to obtain Lender's approval to such Sale; provided that such approval shall not be required and the portion of the Loan secured by the Property shall no longer be cross-collateralized with the Cross-collateralized Properties which were not included in the applicable Sale if:

(i) not more than twenty-five percent (25%) of the original principal amount of the Loan has, in the aggregate, been assumed;

(ii) with respect to the Cross-collateralized Properties that are not being Transferred, the Debt Service Coverage subsequent to the Transfer will be equal to or greater than the greater of:

(A) the Aggregate Debt Service Coverage prior to such transfer; and

(B) the Aggregate Debt Service Coverage as of the Closing Date;

(iii) with respect to the Cross-collateralized Properties to be Transferred, the Debt Service Coverage at the time of the Transfer is equal to or greater than the greater of:

(A) if three (3) or fewer Cross-collateralized Properties are being Transferred, .10 higher than the Aggregate Debt Service Coverage prior to such Transfer or, if four (4) to nine (9) Cross-collateralized Properties are being Transferred, .05 higher than the Aggregate Debt Service Coverage prior to the Transfer or, if more than nine (9) Properties are Transferred, the Aggregate Debt Service Coverage prior to the Transfer;

(B) if three (3) or fewer Cross-collateralized Properties are being Transferred, .10 higher than the Aggregate Debt Service Coverage as of the Closing Date or, if four (4) to nine (9) Cross-collateralized Properties are being Transferred, .05 higher than the Aggregate Debt Service Coverage as of the

Closing Date or, if more than nine (9) Cross-collateralized Properties are Transferred, the Aggregate Debt Service Coverage as of the Closing Date; and

(C) if four (4) or fewer Cross-collateralized Properties are being Transferred, 1.20:1.00 (calculated, for purposes of this clause C only, using a minimum stressed debt service constant of 8.75%);

but in no event shall the applicable Debt Service Coverage or Aggregate Debt Service Coverage, as applicable, be required to be in excess of 1.60:1.00;

(iv) the Loan-to-Value Ratio with respect to the Cross-collateralized Properties to be Transferred is seventy percent (70%) or less; and

(v) Buyer and Grantor execute such documents as Lender may reasonably require to sever the obligations relating to the Allocated Loan Amount between Grantor and Buyer.

ARTICLE X: CERTIFICATES

Section 10.01. Estoppel Certificates. (a) After request by Lender, Grantor, within fifteen (15) days and at its expense, will furnish Lender with a statement, duly acknowledged and certified, setting forth (i) the amount of the original principal amount of the Note, and the unpaid principal amount of the Note, (ii) the rate of interest of the Note, (iii) the date payments of interest and/or principal were last paid, (iv) any offsets or defenses to the payment of the Debt and, if any are alleged, the nature thereof, (v) that the Note and this Security Instrument have not been modified or if modified, giving particulars of such modification and (vi) that there has occurred and is then continuing no Default or if such Default exists, the nature thereof, the period of time it has existed, and the action being taken to remedy such Default.

(b) Within fifteen (15) days after written request by Grantor, Lender shall furnish to Grantor a written statement confirming the amount of the Debt, the maturity date of the Note.

(c) Grantor shall use all reasonable efforts to obtain estoppel certificates from tenants in form and substance reasonably acceptable to Lender.

ARTICLE XI: NOTICES

Section 11.01. Notices. Any notice, demand, statement, request or consent made hereunder shall be in writing and delivered personally or sent to the party to whom the notice, demand or request is being made by Federal Express or other nationally recognized overnight delivery service, as follows and shall be deemed given when delivered personally or one (1) Business Day after being deposited with Federal Express or such other nationally recognized delivery service:

If to Lender:
Wachovia Bank, National Association
Commercial Real Estate Services
8739 Research Drive URP 4
NC 1075
Charlotte, North Carolina 28262
Loan Number:
Attention: Portfolio Management
Fax No.: (704) 715-0036

with a copy to:
Proskauer Rose LLP
1585 Broadway
New York, New York 10036

Attn: David J. Weinberger, Esq.
Fax No.: (212) 969-2900

If to Grantor: To Grantor, at the address first written above and to the attention of Thomas J. Baltimore,

with a copy to: Arent Fox PLLC
1050 Connecticut Avenue, NW
Washington, DC 20036
Attn: Gerard Leval, Esq.
Fax: (202) 857-6395

or such other address as either Grantor or Lender shall hereafter specify by not less than ten (10) days prior written notice as provided herein; provided, however, that notwithstanding any provision of this Article to the contrary, such notice of change of address shall be deemed given only upon actual receipt thereof. Rejection or other refusal to accept or the inability to deliver because of changed addresses of which no notice was given as herein required shall be deemed to be receipt of the notice, demand, statement, request or consent.

ARTICLE XII: INDEMNIFICATION

Section 12.01. Indemnification Covering Property. In addition, and without limitation, to any other provision of this Security Instrument or any other Loan Document, Grantor shall protect, indemnify and save harmless Lender and its successors and assigns, and each of their agents, employees, officers, directors, stockholders, partners and members (collectively, "Indemnified Parties") for, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, known or unknown, contingent or otherwise, whether incurred or imposed within or outside the judicial process, including, without limitation, reasonable attorneys' fees and disbursements imposed upon or incurred by or asserted against any of the Indemnified Parties by reason of (a) ownership of this Security Instrument, the Assignment, the Property or any part thereof or any interest therein or receipt of any Rents; (b) any accident, injury to or death of any person or loss of or damage to property occurring in, on or about the Property or any part thereof or on the adjoining sidewalks,

curbs, parking areas, streets or ways; (c) any use, nonuse or condition in, on or about, or possession, alteration, repair, operation, maintenance or management of, the Property or any part thereof or on the adjoining sidewalks, curbs, parking areas, streets or ways; (d) any failure on the part of Grantor to perform or comply with any of the terms of this Security Instrument or the Assignment; (e) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof; (f) any claim by brokers, finders or similar Persons claiming to be entitled to a commission in connection with any Lease or other transaction involving the Property or any part thereof; (g) any Imposition including, without limitation, any Imposition attributable to the execution, delivery, filing, or recording of any Loan Document, Lease or memorandum thereof; (h) any lien or claim arising on or against the Property or any part thereof under any Legal Requirement or any liability asserted against any of the Indemnified Parties with respect thereto; (i) any claim arising out of or in any way relating to any tax or other imposition on the making and/or recording of this Security Instrument, the Note or any of the other Loan Documents; (j) a Default under Sections 2.02(f), 2.02(g), 2.02(k), 2.02(t) or 2.02(w) hereof, (k) the failure of any Person to file timely with the Internal Revenue Service an accurate Form 1099-B, Statement for Recipients of Proceeds from Real Estate, Broker and Barter Exchange Transactions, which may be required in connection with the Loan, or to supply a copy thereof in a timely fashion to the recipient of the proceeds of the Loan; (l) the claims of any lessee or any Person acting through or under any lessee or otherwise arising under or as a consequence of any Lease or (m) the failure to pay any insurance premiums. Notwithstanding the foregoing provisions of this Section 12.01 to the contrary, Grantor shall have no obligation to indemnify the Indemnified Parties pursuant to this Section 12.01 for liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses relative to the foregoing which result from an Indemnified Party's, and its successors' or assigns', willful misconduct or gross negligence. Any amounts payable to Lender by reason of the application of this Section 12.01 shall constitute a part of the Debt secured by this Security Instrument and the other Loan Documents and shall become immediately due and payable and shall bear interest at the Default Rate from the date the liability, obligation, claim, cost or expense is sustained by Lender, as applicable, until paid. The provisions of this Section 12.01 shall survive the termination of this Security Instrument whether by repayment of the Debt, foreclosure or delivery of a deed in lieu thereof, assignment or otherwise. In case any action, suit or proceeding is brought against any of the Indemnified Parties by reason of any occurrence of the type set forth in (a) through (m) above, Grantor shall, at Grantor's expense, resist and defend such action, suit or proceeding or will cause the same to be resisted and defended by counsel at Grantor's expense for the insurer of the liability or by counsel designated by Grantor (unless reasonably disapproved by Lender promptly after Lender has been notified of such counsel); provided, however, that nothing herein shall compromise the right of Lender (or any other Indemnified Party) to appoint its own counsel at Grantor's expense for its defense with respect to any action which, in the reasonable opinion of Lender or such other Indemnified Party, as applicable, presents a conflict or potential conflict between Lender or such other Indemnified Party that would make such separate representation advisable. Any Indemnified Party will give Grantor prompt notice after such Indemnified Party obtains actual knowledge of any potential claim by such Indemnified Party for indemnification hereunder. The Indemnified Parties shall not settle or compromise any action, proceeding or claim as to which it is indemnified hereunder without notice to Grantor.

ARTICLE XIII: DEFAULTS

Section 13.01. Events of Default. The Debt shall become immediately due at the option of Lender upon any one or more of the following events ("Event of Default"):

(a) if the final payment or prepayment premium, if any, due under the Note shall not be paid on Maturity;

(b) if any monthly payment of interest and/or principal due under the Note (other than the sums described in (a) above) shall not be fully paid within five (5) days of the date upon which the same is due and payable thereunder;

(c) if payment of any sum (other than the sums described in (a) above or (b) above) required to be paid pursuant to the Note, this Security Instrument or any other Loan Document shall not be paid within five (5) days after Lender delivers written notice to Grantor that same is due and payable thereunder or hereunder;

(d) if Grantor, Guarantor or, if Grantor or Guarantor is a partnership, any general partner of Grantor or Guarantor, or, if Grantor or Guarantor is a limited liability company, any member of Grantor or Guarantor, shall institute or cause to be instituted any proceeding for the termination or dissolution of Grantor, Guarantor or any such general partner or member;

(e) if (i) Grantor fails to deliver to Lender the original insurance policies or certificates as herein provided (provided, however, that if the insurance policies required by this Security Instrument are maintained in full force and effect and Lender receives either a certificate or original policies required by this Security Instrument for each such insurance policy within the time periods specified in this Security Instrument, then Grantor shall have five (5) Business Days after notice from Lender of Grantor's failure to deliver the original policies or certificates (whichever has not been delivered as required) to deliver same to Lender before such failure becomes an Event of Default) or (ii) if the insurance policies required hereunder are not kept in full force and effect as herein provided (no notice or cure period applies to this item (ii));

(f) if Grantor or Guarantor attempts to assign its rights under this Security Instrument or any other Loan Document or any interest herein or therein, or if any Transfer occurs other than in accordance with the provisions hereof;

(g) if any representation or warranty of Grantor or Guarantor made herein or in any other Loan Document or in any certificate, report, financial statement or other instrument or agreement furnished to Lender shall prove false or misleading in any material respect as of the date made; provided, however, that if such representation or warranty which was false or misleading in any material respect is, by its nature, curable and is not reasonably likely to have a Material Adverse Effect, and such representation or warranty was not, to the best of Grantor's knowledge, false or misleading in any material respect when made, then the same shall not constitute an Event of Default unless Grantor has not cured the same within five (5) Business Days after receipt by Grantor of notice from Lender in writing of such breach;

(h) if Grantor, Guarantor or any general partner of Grantor or Guarantor shall make an assignment for the benefit of creditors or shall admit in writing its inability to pay its debts generally as they become due;

(i) if a receiver, liquidator or trustee of Grantor, Guarantor or any general partner of Grantor or Guarantor shall be appointed or if Grantor, Guarantor or their respective general partners shall be adjudicated a bankrupt or insolvent, or if any petition for bankruptcy, reorganization or arrangement pursuant to federal bankruptcy law, or any similar federal or state law, shall be filed by or against, consented to, or acquiesced in by, Grantor, Guarantor or their respective general partners or if any proceeding for the dissolution or liquidation of Grantor, Guarantor or their respective general partners shall be instituted; however, if such appointment, adjudication, petition or proceeding was involuntary and not consented to by Grantor, Guarantor or their respective general partners, as applicable, upon the same not being discharged, stayed or dismissed within sixty (60) days or if Grantor, Guarantor or their respective general partners shall generally not be paying its debts as they become due;

(j) if Grantor shall be in default beyond any notice or grace period, if any, under any other mortgage or deed of trust or security agreement covering any part of the Property without regard to its priority relative to this Security Instrument; provided, however, this provision shall not be deemed a waiver of the provisions of Article IX prohibiting further encumbrances affecting the Property or any other provision of this Security Instrument;

(k) if the Property becomes subject (i) to any lien which is superior to the lien of this Security Instrument, other than a lien for real estate taxes and assessments not due and payable, or (ii) to any mechanic's, materialman's or other lien which is or is asserted to be superior to the lien of this Security Instrument, and such lien shall remain undischarged (by payment, bonding, or otherwise) for fifteen (15) days unless contested in accordance with the terms hereof;

(l) if Grantor discontinues the operation of the Property or any part thereof for reasons other than repair or restoration arising from a casualty or condemnation for ten (10) days or more;

(m) except as permitted in this Security Instrument, any material alteration, demolition or removal of any of the Improvements without the prior consent of Lender;

(n) if Grantor consummates a transaction which would cause this Security Instrument or Lender's rights under this Security Instrument, the Note or any other Loan Document to constitute a non-exempt prohibited transaction under ERISA or result in a violation of a state statute regulating government plans subjecting Lender to liability for a violation of ERISA or a state statute;

(o) if an Event of Default shall occur under any of the other Cross-collateralized Mortgages;

(p) if a default beyond applicable notice and grace periods, if any, occurs under the Franchise Agreement or Operating Lease, or if the Franchise Agreement or Operating Lease is

terminated, or if, without Lender's prior written consent, there is a material change to the Franchise Agreement or Operating Lease; or

(q) if a default shall occur under any of the other terms, covenants or conditions of the Note, this Security Instrument or any other Loan Document, other than as set forth in (a) through (p) above, for ten (10) days after notice from Lender in the case of any default which can be cured by the payment of a sum of money, or for thirty (30) days after notice from Lender in the case of any other default or an additional thirty (30) days if Grantor is diligently and continuously effectuating a cure of a curable non-monetary default, other than as set forth in (a) through (p) above.

Section 13.02. Remedies. (a) Upon the occurrence and during the continuance of any Event of Default, Lender may, in addition to any other rights or remedies available to it hereunder or under any other Loan Document, at law or in equity, take such action, without notice or demand, as it reasonably deems advisable to protect and enforce its rights against Grantor or any one or more of the Cross-collateralized Borrowers and in and to the Property or any one or more of the Cross-collateralized Properties including, but not limited to, the following actions, each of which may be pursued singly, concurrently or otherwise, at such time and in such order as Lender may determine, in its sole discretion, without impairing or otherwise affecting any other rights and remedies of Lender hereunder, at law or in equity: (i) declare all or any portion of the unpaid Debt to be immediately due and payable; provided, however, that upon the occurrence of any of the events specified in Section 13.01(i), the entire Debt will be immediately due and payable without notice or demand or any other declaration of the amounts due and payable; or (ii) bring an action to foreclose this Security Instrument and without applying for a receiver for the Rents, but subject to the rights of the tenants under the Leases, enter into or upon the Property or any part thereof, either personally or by its agents, nominees or attorneys, and dispossess Grantor and its agents and servants therefrom, and thereupon Lender may (A) use, operate, manage, control, insure, maintain, repair, restore and otherwise deal with all and every part of the Property and conduct the business thereat, (B) make alterations, additions, renewals, replacements and improvements to or on the Property or any part thereof, (C) exercise all rights and powers of Grantor with respect to the Property or any part thereof, whether in the name of Grantor or otherwise, including, without limitation, the right to make, cancel, enforce or modify Leases, obtain and evict tenants, and demand, sue for, collect and receive all earnings, revenues, rents, issues, profits and other income of the Property and every part thereof, and (D) apply the receipts from the Property or any part thereof to the payment of the Debt, after deducting therefrom all expenses (including, without limitation, reasonable attorneys' fees and disbursements) reasonably incurred in connection with the aforesaid operations and all amounts necessary to pay the Impositions, insurance and other charges in connection with the Property or any part thereof, as well as just and reasonable compensation for the services of Lender's third-party agents; or (iii) have an appraisal or other valuation of the Property or any part thereof performed by an Appraiser (and Grantor covenants and agrees it shall cooperate in causing any such valuation or appraisal to be performed) and any cost or expense incurred by Lender in connection therewith shall constitute a portion of the Debt and be secured by this Security Instrument and shall be immediately due and payable to Lender with interest, at the Default Rate, until the date of receipt by Lender; or (iv) sell the Property or

institute proceedings for the complete foreclosure of this Security Instrument, or take such other action as may be allowed pursuant to Legal Requirements, at law or in equity, for the enforcement of this Security Instrument in which case the Property or any part thereof may be sold for cash or credit in one or more parcels; or (v) with or without entry, and to the extent permitted and pursuant to the procedures provided by applicable Legal Requirements, institute proceedings for the partial foreclosure of this Security Instrument, or take such other action as may be allowed pursuant to Legal Requirements, at law or in equity, for the enforcement of this Security Instrument for the portion of the Debt then due and payable, subject to the lien of this Security Instrument continuing unimpaired and without loss of priority so as to secure the balance of the Debt not then due; or (vi) sell the Property or any part thereof and any or all estate, claim, demand, right, title and interest of Grantor therein and rights of redemption thereof, pursuant to power of sale or otherwise, at one or more sales, in whole or in parcels, in any order or manner, at such time and place, upon such terms and after such notice thereof as may be required or permitted by law, at the discretion of Lender, and in the event of a sale, by foreclosure or otherwise, of less than all of the Property, this Security Instrument shall continue as a lien on the remaining portion of the Property; or (vii) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained in the Loan Documents, or any of them; or (viii) recover judgment on the Note or any guaranty either before, during or after (or in lieu of) any proceedings for the enforcement of this Security Instrument; or (ix) apply, ex parte, for the appointment of a custodian, trustee, receiver, keeper, liquidator or conservator of the Property or any part thereof, irrespective of the adequacy of the security for the Debt and without regard to the solvency of Grantor or of any Person liable for the payment of the Debt, to which appointment Grantor does hereby consent and such receiver or other official shall have all rights and powers permitted by applicable law and such other rights and powers as the court making such appointment may confer, but the appointment of such receiver or other official shall not impair or in any manner prejudice the rights of Lender to receive the Rent with respect to any of the Property pursuant to this Security Instrument or the Assignment; or (x) require, at Lender's option, Grantor to pay monthly in advance to Lender, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of any portion of the Property occupied by Grantor and may require Grantor to vacate and surrender possession to Lender of the Property or to such receiver and Grantor may be evicted by summary proceedings or otherwise; or (xi) without notice to Grantor (A) apply all or any portion of the cash collateral in any Sub-Account and Escrow Account, including any interest and/or earnings therein, to carry out the obligations of Grantor under this Security Instrument and the other Loan Documents, to protect and preserve the Property and for any other purpose permitted under this Security Instrument and the other Loan Documents and/or (B) have all or any portion of such cash collateral immediately paid to Lender to be applied against the Debt in the order and priority set forth in the Note; or (xii) pursue any or all such other rights or remedies as Lender may have under applicable law or in equity; provided, however, that the provisions of this Section 13.02(a) shall not be construed to extend or modify any of the notice requirements or grace periods provided for hereunder or under any of the other Loan Documents. Grantor hereby waives, to the fullest extent permitted by Legal Requirements, any defense Grantor might otherwise raise or have by the failure to make any tenants parties defendant to a foreclosure proceeding and to foreclose their rights in any proceeding instituted by Lender.

(b) Any time after an Event of Default Lender shall have the power to sell the Property or any part thereof at public auction, in such manner, at such time and place, upon such terms and conditions, and upon such public notice as Lender may deem best for the interest of Lender, or as may be required or permitted by applicable law, consisting of advertisement in a newspaper of general circulation in the jurisdiction and for such period as applicable law may require and at such other times and by such other methods, if any, as may be required by law to convey the Property in fee simple by Lender's deed with special warranty of title to and at the cost of the purchaser, who shall not be liable to see to the application of the purchase money. The

proceeds or avails of any sale made under or by virtue of this Section 13.02, together with any other sums which then may be held by Lender under this Security Instrument, whether under the provisions of this Section 13.02 or otherwise, shall be applied as follows:

First: To the payment of the third-party costs and expenses reasonably incurred in connection with any such sale and to advances, fees and expenses, including, without limitation, reasonable fees and expenses of Lender's legal counsel as applicable, and of any judicial proceedings wherein the same may be made, and of all expenses, liabilities and advances reasonably made or incurred by Lender under this Security Instrument, together with interest as provided herein on all such advances made by Lender, and all Impositions, except any Impositions or other charges subject to which the Property shall have been sold;

Second: To the payment of the whole amount then due, owing and unpaid under the Note for principal and interest thereon, with interest on such unpaid principal at the Default Rate from the date of the occurrence of the earliest Event of Default that formed a basis for such sale until the same is paid;

Third: To the payment of any other portion of the Debt required to be paid by Grantor pursuant to any provision of this Security Instrument, the Note, or any of the other Loan Documents; and

Fourth: The surplus, if any, to Grantor unless otherwise required by Legal Requirements.

Lender and any receiver or custodian of the Property or any part thereof shall be liable to account for only those rents, issues, proceeds and profits actually received by it.

(c) Lender may adjourn from time to time any sale by it to be made under or by virtue of this Security Instrument by announcement at the time and place appointed for such sale or for such adjourned sale or sales and, except as otherwise provided by any applicable provision of Legal Requirements, Lender, without further notice or publication, may make such sale at the time and place to which the same shall be so adjourned.

(d) Upon the completion of any sale or sales made by Lender under or by virtue of this Section 13.02, Lender, or any officer of any court empowered to do so, shall execute and deliver to the accepted purchaser or purchasers a good and sufficient instrument, or good and sufficient instruments, granting, conveying, assigning and transferring all estate, right, title and interest in and to the property and rights sold. Lender is hereby irrevocably appointed the true

and lawful attorney-in-fact of Grantor (coupled with an interest), in its name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the property and rights so sold and for that purpose Lender may execute all necessary instruments of conveyance, assignment, transfer and delivery, and may substitute one or more Persons with like power, Grantor hereby ratifying and confirming all that its said attorney-in-fact or such substitute or substitutes shall lawfully do by virtue hereof. Nevertheless, Grantor, if so requested by Lender, shall ratify and confirm any such sale or sales by executing and delivering to Lender, or to such purchaser or purchasers all such instruments as may be advisable, in the sole judgement of Lender, for such purpose, and as may be designated in such request. Any such sale or sales made under or by virtue of this Section 13.02, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Grantor in and to the property and rights so sold, and shall, to the fullest extent permitted under Legal Requirements, be a perpetual bar, both at law and in equity against Grantor and against any and all Persons claiming or who may claim the same, or any part thereof, from, through or under Grantor.

(e) In the event of any sale made under or by virtue of this Section 13.02 (whether made under the power of sale herein granted or under or by virtue of judicial proceedings or a judgment or decree of foreclosure and sale), the entire Debt immediately thereupon shall, anything in the Loan Documents to the contrary notwithstanding, become due and payable.

(f) Upon any sale made under or by virtue of this Section 13.02 (whether made under the power of sale herein granted or under or by virtue of judicial proceedings or a judgment or decree of foreclosure and sale), Lender may bid for and acquire the Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the Debt the net sales price after deducting therefrom the expenses of the sale and the costs of the action.

(g) No recovery of any judgment by Lender and no levy of an execution under any judgment upon the Property or any part thereof or upon any other property of Grantor shall release the lien of this Security Instrument upon the Property or any part thereof, or any liens, rights, powers or remedies of Lender hereunder, but such liens, rights, powers and remedies of Lender shall continue unimpaired until all amounts due under the Note, this Security Instrument and the other Loan Documents are paid in full.

(h) Upon the exercise by Lender of any power, right, privilege, or remedy pursuant to this Security Instrument which requires any consent, approval, registration, qualification, or authorization of any Governmental Authority, Grantor agrees to execute and deliver, or will cause the execution and delivery of, all applications, certificates, instruments, assignments and other documents and papers that Lender or any purchaser of the Property may be required to obtain for such governmental consent, approval, registration, qualification, or authorization and Lender is hereby irrevocably appointed the true and lawful attorney-in-fact of Grantor (coupled with an interest), in its name and stead, to execute all such applications, certificates, instruments, assignments and other documents and papers.

Section 13.03. Payment of Debt After Default. If following the occurrence of any Event of Default, Grantor shall tender payment of an amount sufficient to satisfy the Debt in whole or in part at any time prior to a foreclosure sale of the Property, and if at the time of such tender prepayment of the principal balance of the Note is not permitted by the Note and this Security Instrument, Grantor shall, in addition to the entire Debt, also pay to Lender a sum equal to (a) all accrued interest on the Note and all other fees, charges and sums due and payable hereunder, (b) all costs and expenses in connection with the enforcement of Lender's rights hereunder, and (c) a prepayment charge (the "Prepayment Charge") equal to the greater of (i) 2% of the Principal Amount and (ii) the present value of a series of payments each equal to the Payment Differential (as hereinafter defined) and payable on each Payment Date over the remaining original term of the Note and on the Payment Date occurring two months prior to the Maturity Date, discounted at the Reinvestment Yield (as hereinafter defined) for the number of months remaining as of the date of such prepayment to each such Payment Date and the Payment Date occurring two months prior to the Maturity Date. The term "Payment Differential" shall mean an amount equal to (i) the Interest Rate less the Reinvestment Yield, divided by (ii) twelve (12) and multiplied by (iii) the Principal Amount after application of the constant monthly payment due under the Note on the date of such prepayment, provided that the Payment Differential shall in no event be less than zero. The term "Reinvestment Yield" shall mean an amount equal to the lesser of (i) the yield on the U.S. Treasury issue (primary issue) with a maturity date closest to the Payment Date occurring two months prior to the Maturity Date, or (ii) the yield on the U.S. Treasury issue (primary issue) with a term equal to the remaining average life of the indebtedness evidenced by the Note, with each such yield being based on the bid price for such issue as published in the Wall Street Journal on the date that is fourteen (14) days prior to the date of such prepayment set forth in the notice of prepayment (or, if such bid price is not published on that date, the next preceding date on which such bid price is so published) and converted to a monthly compounded nominal yield. In addition to the amounts described above, if, during the first (1st) Loan Year, Grantor shall tender payment of an amount sufficient to satisfy the Debt in whole or in part following the occurrence of any Event of Default, Grantor shall, in addition to the entire Debt, also pay to Lender a sum equal to three percent (3%) of the Principal Amount. Failure of Lender to require any of these payments shall not constitute a waiver of the right to require the same in the event of any subsequent default or to exercise any other remedy available to Lender hereunder, under any other Loan Document or at law or in equity. In the event that any prepayment charge is due hereunder, Lender shall deliver to Grantor a statement setting forth the amount and determination of the prepayment fee, and, provided that Lender shall have in good faith applied the formula described above, Grantor shall not have the right to challenge the calculation or the method of calculation set forth in any such statement in the absence of manifest error, which calculation may be made by Lender on any day during the fifteen (15) day period preceding the date of such prepayment. Lender shall not be obligated or required to have actually reinvested the prepaid principal balance at the Reinvestment Yield or otherwise as a condition to receiving the prepayment charge. If at the time of such tender, prepayment of the principal balance of the Note, as applicable, is permitted, such tender by Grantor shall be deemed to be a voluntary prepayment of the principal balance of the Note, as applicable, and Grantor shall, in addition to the entire Debt, also pay to Lender the applicable prepayment consideration specified in the Note and this Security Instrument.

Section 13.04. Possession of the Property. Upon the occurrence of any Event of Default and the acceleration of the Debt or any portion thereof, Grantor, if an occupant of the Property or any part thereof, upon demand of Lender, shall immediately surrender possession of the Property (or the portion thereof so occupied) to Lender, and if Grantor is permitted to remain in possession, the possession shall be as a month-to-month tenant of Lender and, on demand, Grantor shall pay to Lender monthly, in advance, a reasonable rental for the space so occupied and in default thereof Grantor may be dispossessed. The covenants herein contained may be enforced by a receiver of the Property or any part thereof. Nothing in this Section 13.04 shall be deemed to be a waiver of the provisions of this Security Instrument making the Transfer of the Property or any part thereof without Lender's prior written consent an Event of Default.

Section 13.05. Interest After Default. If any amount due under the Note, this Security Instrument or any of the other Loan Documents is not paid within any applicable notice and grace period after same is due, whether such date is the stated due date, any accelerated due date or any other date or at any other time specified under any of the terms hereof or thereof, then, in such event, Grantor shall pay interest on the amount not so paid from and after the date on which such amount first becomes due at the Default Rate; and such interest shall be due and payable at such rate until the earlier of the cure of all Events of Default or the payment of the entire amount due to Lender, whether or not any action shall have been taken or proceeding commenced to recover the same or to foreclose this Security Instrument. All unpaid and accrued interest shall be secured by this Security Instrument as part of the Debt. Nothing in this Section 13.05 or in any other provision of this Security Instrument shall constitute an extension of the time for payment of the Debt.

Section 13.06. Grantor's Actions After Default. After the happening of any Event of Default and immediately upon the commencement of any action, suit or other legal proceedings by Lender to obtain judgment for the Debt, or of any other nature in aid of the enforcement of the Loan Documents, Grantor will (a) after receipt of notice of the institution of any such action, waive the issuance and service of process and enter its voluntary appearance in such action, suit or proceeding, and (b) if required by Lender, consent to the appointment of a receiver or receivers of the Property or any part thereof and of all the earnings, revenues, rents, issues, profits and income thereof.

Section 13.07. Control by Lender After Default. Notwithstanding the appointment of any custodian, receiver, liquidator or trustee of Grantor, or of any of its property, or of the Property or any part thereof, to the extent permitted by Legal Requirements, Lender shall be entitled to obtain possession and control of all property now and hereafter covered by this Security Instrument and the Assignment in accordance with the terms hereof.

Section 13.08. Right to Cure Defaults. (a) Upon the occurrence of any Event of Default, Lender or its agents may, but without any obligation to do so and without notice to or demand on Grantor and without releasing Grantor from any obligation hereunder, make or do the same in such manner and to such extent as Lender may deem necessary to protect the security hereof. Lender and its agents are authorized to enter upon the Property or any part thereof for such purposes, or appear in, defend, or bring any action or proceedings to protect Lender's interest in

the Property or any part thereof or to foreclose this Security Instrument or collect the Debt, and the cost and expense thereof (including reasonable attorneys' fees to the extent permitted by law), with interest as provided in this Section 13.08, shall constitute a portion of the Debt and shall be immediately due and payable to Lender upon demand. All such costs and expenses incurred by Lender or its agents in remedying such Event of Default or in appearing in, defending, or bringing any such action or proceeding shall bear interest at the Default Rate, for the period from the date so demanded to the date of payment to Lender. All such costs and expenses incurred by Lender or its agents together with interest thereon calculated at the above rate shall be deemed to constitute a portion of the Debt and be secured by this Security Instrument.

(b) If Lender makes any payment or advance that Lender is authorized by this Security Instrument to make in the place and stead of Grantor (i) relating to the Impositions or tax liens asserted against the Property, Lender may do so according to any bill, statement or estimate procured from the appropriate public office without inquiry into the accuracy of the bill, statement or estimate or into the validity of any of the Impositions or the tax liens or claims thereof; (ii) relating to any apparent or threatened adverse title, lien, claim of lien, encumbrance, claim or charge, Lender will be the sole judge of the legality or validity of same; or (iii) relating to any other purpose authorized by this Security Instrument but not enumerated in this Section 13.08, Lender may do so whenever, in its judgment and discretion, the payment or advance seems necessary or desirable to protect the Property and the full security interest intended to be created by this Security Instrument. In connection with any payment or advance made pursuant to this Section 13.08, Lender has the option and is authorized, but in no event shall be obligated, to obtain a continuation report of title prepared by a title insurance company. The payments and the advances made by Lender pursuant to this Section 13.08 and the cost and expenses of said title report will be due and payable by Grantor on demand, together with interest at the Default Rate, and will be secured by this Security Instrument.

Section 13.09. Late Payment Charge. If any portion of the Debt is not paid in full on or before the day on which it is due and payable hereunder, Grantor shall pay to Lender an amount equal to five percent (5%) of such unpaid portion of the Debt ("Late Charge") to defray the expense incurred by Lender in handling and processing such delinquent payment, and such amount shall constitute a part of the Debt.

Section 13.10. Recovery of Sums Required to Be Paid. Lender shall have the right from time to time to take action to recover any sum or sums which constitute a part of the Debt as the same become due and payable hereunder (after the expiration of any grace period or the giving of any notice herein provided, if any), without regard to whether or not the balance of the Debt shall be due, and without prejudice to the right of Lender thereafter to bring an action of foreclosure, or any other action, for a default or defaults by Grantor existing at the time such earlier action was commenced.

Section 13.11. Marshalling and Other Matters. Grantor hereby waives, to the fullest extent permitted by law, the benefit of all appraisement, valuation, stay, extension, reinstatement, redemption (both equitable and statutory) and homestead laws now or hereafter in force and all

rights of marshalling in the event of any sale hereunder of the Property or any part thereof or any interest therein. Nothing herein or in any other Loan Document shall be construed as requiring Lender to resort to any particular Cross-collateralized Property for the satisfaction of the Debt in preference or priority to any other Cross-collateralized Property but Lender may seek satisfaction out of all the Cross-collateralized Properties or any part thereof in its absolute discretion. Further, Grantor hereby expressly waives any and all rights of redemption from sale under any order or decree of foreclosure of this Security Instrument on behalf of Grantor, whether equitable or statutory and on behalf of each and every Person acquiring any interest in or title to the Property or any part thereof subsequent to the date of this Security Instrument and on behalf of all Persons to the fullest extent permitted by applicable law.

Section 13.12. Tax Reduction Proceedings. After an Event of Default, Grantor shall be deemed to have appointed Lender as its attorney-in-fact to seek a reduction or reductions in the assessed valuation of the Property for real property tax purposes or for any other purpose and to prosecute any action or proceeding in connection therewith. This power, being coupled with an interest, shall be irrevocable for so long as any part of the Debt remains unpaid and any Event of Default shall be continuing.

Section 13.13. General Provisions Regarding Remedies.

(a) Right to Terminate Proceedings. Lender may terminate or rescind any proceeding or other action brought in connection with its exercise of the remedies provided in Section 13.02 at any time before the conclusion thereof, as determined in Lender's sole discretion and without prejudice to Lender.

(b) No Waiver or Release. The failure of Lender to exercise any right, remedy or option provided in the Loan Documents shall not be deemed a waiver of such right, remedy or option or of any covenant or obligation contained in the Loan Documents. No acceptance by Lender of any payment after the occurrence of an Event of Default and no payment by Lender of any payment or obligation for which Grantor is liable hereunder shall be deemed to waive or cure any Event of Default. No sale of all or any portion of the Property, no forbearance on the part of Lender, and no extension of time for the payment of the whole or any portion of the Debt or any other indulgence given by Lender to Grantor or any other Person, shall operate to release or in any manner affect the interest of Lender in the Property or the liability of Grantor to pay the Debt. No waiver by Lender shall be effective unless it is in writing and then only to the extent specifically stated.

(c) No Impairment; No Releases. The interests and rights of Lender under the Loan Documents shall not be impaired by any indulgence, including (i) any renewal, extension or modification which Lender may grant with respect to any of the Debt; (ii) any surrender, compromise, release, renewal, extension, exchange or substitution which Lender may grant with respect to the Property or any portion thereof; or (iii) any release or indulgence granted to any maker, endorser, guarantor or surety of any of the Debt.

(d) Effect on Judgment. No recovery of any judgment by Lender and no levy of an execution under any judgment upon any Property or any portion thereof shall affect in any

manner or to any extent the lien of the other Cross-collateralized Mortgages upon the remaining Cross-collateralized Properties or any portion thereof, or any rights, powers or remedies of Lender hereunder or thereunder. Such lien, rights, powers and remedies of Lender shall continue unimpaired as before.

ARTICLE XIV: COMPLIANCE WITH REQUIREMENTS

Section 14.01. Compliance with Legal Requirements. (a) Grantor shall promptly comply with all present and future Legal Requirements, foreseen and unforeseen, ordinary and extraordinary, whether requiring structural or nonstructural repairs or alterations including, without limitation, all zoning, subdivision, building, safety and environmental protection, land use and development Legal Requirements, all Legal Requirements which may be applicable to the curbs adjoining the Property or to the use or manner of use thereof, and all rent control, rent stabilization and all other similar Legal Requirements relating to rents charged and/or collected in connection with the Leases. Grantor represents and warrants that the Property is in compliance in all respects with all Legal Requirements as of the date hereof, no notes or notices of violations of any Legal Requirements have been entered or received by Grantor and there is no basis for the entering of such notes or notices.

(b) Grantor shall have the right to contest by appropriate legal proceedings diligently conducted in good faith, without cost or expense to Lender, the validity or application of any Legal Requirement and to suspend compliance therewith if permitted under applicable Legal Requirements, provided (i) failure to comply therewith may not subject Lender to any civil or criminal liability, (ii) prior to and during such contest, Grantor shall furnish to Lender security reasonably satisfactory to Lender, in its discretion, against loss or injury by reason of such contest or non-compliance with such Legal Requirement, (iii) no Default or Event of Default shall exist during such proceedings and such contest shall not otherwise violate any of the provisions of any of the Loan Documents, (iv) such contest shall not, (unless Grantor shall comply with the provisions of clause (ii) of this Section 14.01(b)) subject the Property to any lien or encumbrance the enforcement of which is not suspended or otherwise affect the priority of the lien of this Security Instrument; (v) such contest shall not affect the ownership, use or occupancy of the Property; (vi) the Property or any part thereof or any interest therein shall not be in any danger of being sold, forfeited or lost by reason of such contest by Grantor; (vii) Grantor shall give Lender prompt notice of the commencement of such proceedings and, upon request by Lender, notice of the status of such proceedings and/or confirmation of the continuing satisfaction of the conditions set forth in clauses (i) - (vi) of this Section 14.01(b); and (viii) upon a final determination of such proceeding, Grantor shall take all steps necessary to comply with any requirements arising therefrom.

(c) Grantor shall at all times comply with all applicable Legal Requirements with respect to the construction, use and maintenance of any vaults adjacent to the Property. If by reason of the failure to pay taxes, assessments, charges, permit fees, franchise taxes or levies of any kind or nature, the continued use of the vaults adjacent to Property or any part thereof is discontinued, Grantor nevertheless shall, with respect to any vaults which may be necessary for

the continued use of the Property, take such steps (including the making of any payment) to ensure the continued use of vaults or replacements.

Section 14.02. Compliance with Recorded Documents; No Future Grants. Grantor shall promptly perform and observe or cause to be performed and observed, all of the terms, covenants and conditions of all Property Agreements and all things necessary to preserve intact and unimpaired any and all appurtenances or other interests or rights affecting the Property.

ARTICLE XV: DEFEASANCE; PREPAYMENT

Section 15.01. Defeasance; Prepayment. (a) Except as set forth in this Section 15.01, no prepayment or defeasance of the Debt may be made by or on behalf of Grantor in whole or in part.

(b) Grantor may defease the Loan at any time subsequent to the earlier to occur of (x) the second (2nd) anniversary of the last Securitization involving any portion of the Loan or (y) the third (3rd) anniversary of the date hereof and prior to the calendar month immediately preceding the Maturity Date, in whole or, from time to time, in part, as of the last day of an Interest Accrual Period, in accordance with the following provisions:

(i) Lender shall have received from Grantor, not less than thirty (30) days', nor more than ninety (90) days', prior written notice specifying the date proposed for such defeasance and the amount which is to be defeased, which proposed date shall be as of a Payment Date.

(ii) Grantor shall also pay to Lender all interest due through and including the last day of the Interest Accrual Period ending on the day prior to the Payment Date in which such defeasance is being made, together with any and all other amounts due and owing pursuant to the terms of the Note, this Security Instrument or the other Loan Documents, including, without limitation, any costs incurred in connection with a defeasance.

(iii) No Event of Default shall have occurred and be continuing.

(iv) Grantor shall (A) pay the Defeasance Deposit and (B) deliver to Lender (1) a security agreement, in form and substance reasonably satisfactory to Lender, creating a first priority lien on the Defeasance Deposit and the Federal Obligations purchased on behalf of Grantor with the Defeasance Deposit in accordance with the terms of this Section 15.01(b)(iv) (the "Security Agreement"); (2) an Officer's Certificate certifying that the requirements set forth in this Section 15.01(b)(iv) have been satisfied; (3) an opinion of counsel for Grantor in form and substance reasonably satisfactory to Lender stating, among other things, that (x) Lender has a perfected security interest in the Defeasance Deposit and a first priority perfected security interest in the Federal Obligations purchased by Lender on behalf of Grantor, (y) the contemplated defeasance will not result in any deemed exchange pursuant to Section 1001 of the Code of the Note and will not adversely affect the Note's or, if applicable, the undefeased Note's status as

indebtedness for Federal income tax purposes and (z) any trust formed as a "real estate mortgage investment conduit" within the meaning of Section 860D of the Code ("REMIC") in connection with a Securitization will not fail to maintain its status as a REMIC as a result of such defeasance; (4) in the event that only a portion of the Loan is being defeased, Grantor shall execute and deliver all necessary documents to split the Note into two substitute notes, one having a principal balance equal to the defeased portion of the Note (the "Defeased Note") and one note having a principal balance equal to the undefeased portion of the Note (the "Undefeased Note"), the amortization schedule for which notes shall be calculated, in the case of a Defeased Note, or recalculated, in the case of an Undefeased Note, to amortize the respective principal balances of each on the same schedule as the Note (including, without limitation, the payment of the Principal Amount due on the Maturity Date); (5) a certificate, in form and substance reasonably satisfactory to Lender from a nationally recognized Independent certified public accountant confirming that the requirements of this Section 15.01(b) have been satisfied; and (6) such other certificates, documents, opinions or instruments as Lender may reasonably request. Grantor hereby irrevocably appoints Lender as its agent and attorney-in-fact, coupled with an interest, for the purpose of using the Defeasance Deposit to purchase Federal Obligations which provide Scheduled Defeasance Payments, and Lender shall, upon receipt of the Defeasance Deposit, purchase such Federal Obligations on behalf of Grantor. Grantor, pursuant to the Security Agreement or other appropriate document, shall authorize and direct that the payments received from the Federal Obligations shall be made directly to Lender and applied to satisfy the obligations of Grantor under the Defeased Note. The Defeased Note and the Undefeased Note shall have identical terms as the Note, except for the principal balance. A Defeased Note cannot be the subject of a further defeasance.

(v) The Rating Agencies shall have confirmed in writing that any rating issued by the Rating Agencies in connection with the Securitization will not, as a result of the proposed defeasance, be downgraded, from the then current ratings thereof, qualified or withdrawn.

(vi) If the Loan is to be defeased and Grantor is requesting a release of the Property in connection with such defeasance, such defeasance shall be to facilitate the disposition of the Property or in connection with any other customary transaction within the meaning of Treas. Reg. 1.860G-(2)(a)(8)(iii).

(vii) In the event of a defeasance of the Loan in whole, but not in part, if Grantor shall continue to own any assets other than the Defeasance Deposit, Grantor shall establish or designate a special-purpose bankruptcy-remote successor entity acceptable to Lender (the "Successor Grantor"), with respect to which a substantive nonconsolidation opinion satisfactory in form and substance reasonably satisfactory to Lender has been delivered to Lender and Grantor shall transfer and assign to the Successor Grantor all obligations, rights and duties under the Note and the Security Agreement, together with the pledged Defeasance Deposit. The Successor Grantor shall assume the obligations of Grantor under the Note and the Security Agreement and Grantor shall be relieved of its

obligations hereunder and thereunder. Grantor shall pay Ten and No/100 Dollars ($10.00) to the Successor Grantor as consideration for assuming such Grantor obligations.

(viii) In the event the Loan is defeased in full in accordance with the terms hereof, Lender shall release all reserves, escrows and guaranties relating to the Loan to Grantor.

(c) At any time subsequent to the Payment Date occurring in July 2007 (the "Lockout Expiration Date"), Grantor may prepay the Loan, in whole, but not in part, as of the last day of an Interest Accrual Period, in accordance with the following provisions:

(i) Lender shall have received from Grantor, not less than thirty (30) days', nor more than ninety (90) days', prior written notice specifying the date proposed for such prepayment and the amount which is to be prepaid.

(ii) Grantor shall also pay to Lender all interest due through and including the last day of the Interest Accrual Period in which such prepayment is being made, together with any and all other amounts due and owing pursuant to the terms of the Note, this Security Instrument or the other Loan Documents.

(iii) Any partial prepayment shall be in a minimum amount not less than $25,000 and shall be in whole multiples of $1,000 in excess thereof.

(iv) No Event of Default shall have occurred and be continuing.

(v) Any partial prepayment of the Principal Amount, including, without limitation, Unscheduled Payments, shall be applied to the installments of principal last due hereunder and shall not release or relieve Grantor from the obligation to pay the regularly scheduled installments of principal and interest becoming due under the Note.

Section 15.02. Release of Property. If (A) Grantor defeases all or a portion of the Loan pursuant to Section 15.01(b) hereof to facilitate the disposition of the Property or in connection with any other customary transaction within the meaning of Treas. Reg. 1.860 G-(2)(a)(8)(iii) or (B) Grantor makes a prepayment pursuant to Section 15.01(c) hereof or (C) Grantor applies Loss Proceeds from the Property towards the repayment of the Debt or towards a defeasance, Lender shall, promptly, upon satisfaction of all the following terms and conditions, execute, acknowledge and deliver to Grantor a release of this Security Instrument (a "Release") in recordable form with respect to the Property:

(a) In the event of a prepayment or defeasance of the Loan in part, but not in whole, Grantor shall have defeased or prepaid, as applicable, a principal amount equal to the Allocated Loan Amount for the Cross-collateralized Property to be released multiplied by the Release Price Percentage (the "Release Price").

(b) In the event of a prepayment pursuant to Section 15.01(c) hereof or defeasance pursuant to Section 15.01(b) hereof, Lender shall have received from Grantor evidence in form and substance satisfactory to Lender that the pro forma Debt Yield immediately following the Release is at least equal to the greater of the Debt Yield as of the Closing Date and the Debt Yield immediately prior to effecting such Release, accompanied by an Officer's Certificate stating that the statements, calculations and information comprising such evidence are true, correct and complete in all respects.

(c) Grantor shall, at its sole cost and expense, prepare any and all documents and instruments necessary to effect the Release, all of which shall be subject to the reasonable approval of Lender, and Grantor shall pay all costs reasonably incurred by Lender (including, but not limited to, reasonable attorneys' fees and disbursements, title search costs and endorsement premiums) in connection with the review, execution and delivery of the Release.

(d) No Event of Default has occurred and is continuing.

(e) If the General Partner is a "General Partner", as defined in any other Cross-collateralized Mortgage, the General Partner shall have resigned as a general partner or managing member, as applicable, of Grantor.

Section 15.03. Involuntary Prepayments. Notwithstanding anything contained in this Security Instrument or in any other Loan Document, any application of sums by Lender towards the partial prepayment of the Debt, including, without limitation, those resulting from the application of Loss Proceeds, the application of any sums on deposit in the Curtailment Reserve Escrow Account or the application of sums received by Lender after the occurrence of an Event of Default, may be applied to sums due under this Security Instrument, the Note and the other Loan Documents in such order of priority as Lender may, in its sole and absolute discretion, elect.

ARTICLE XVI: ENVIRONMENTAL COMPLIANCE

Section 16.01. Covenants, Representations and Warranties. (a) Grantor has not, at any time, and, to Grantor's best knowledge after due inquiry and investigation, except as set forth in the Environmental Report, no other Person has at any time, handled, buried, stored, retained, refined, transported, processed, manufactured, generated, produced, spilled, allowed to seep, leak, escape or leach, or pumped, poured, emitted, emptied, discharged, injected, dumped, transferred or otherwise disposed of or dealt with Hazardous Materials on, to or from the Premises or any other real property owned and/or occupied by Grantor, and Grantor does not intend to and shall not use the Property or any part thereof or any such other real property for the purpose of handling, burying, storing, retaining, refining, transporting, processing, manufacturing, generating, producing, spilling, seeping, leaking, escaping, leaching, pumping, pouring, emitting, emptying, discharging, injecting, dumping, transferring or otherwise disposing of or dealing with Hazardous Materials, except for use and storage for use of heating oil, cleaning fluids, pesticides and other substances customarily used in the operation of properties that are being used for the same purposes as the Property is presently being used, provided such use and/or storage for use is in compliance with the requirements hereof and the other Loan

Documents and does not give rise to liability under applicable Legal Requirements or Environmental Statutes or be the basis for a lien against the Property or any part thereof. In addition, without limitation to the foregoing provisions, Grantor represents and warrants that, to the best of its knowledge, after due inquiry and investigation, except as previously disclosed in writing to Lender, there is no asbestos in, on, over, or under all or any portion of the fire-proofing or any other portion of the Property.

(b) Grantor, after due inquiry and investigation, knows of no seepage, leak, escape, leach, discharge, injection, release, emission, spill, pumping, pouring, emptying or dumping of Hazardous Materials into waters on, under or adjacent to the Property or any part thereof or any other real property owned and/or occupied by Grantor, or onto lands from which such Hazardous Materials might seep, flow or drain into such waters, except as disclosed in the Environmental Report.

(c) Grantor shall not permit any Hazardous Materials to be handled, buried, stored, retained, refined, transported, processed, manufactured, generated, produced, spilled, allowed to seep, leak, escape or leach, or to be pumped, poured, emitted, emptied, discharged, injected, dumped, transferred or otherwise disposed of or dealt with on, under, to or from the Property or any portion thereof at any time, except for use and storage for use of heating oil, ordinary cleaning fluids, pesticides and other substances customarily used in the operation of properties that are being used for the same purposes as the Property is presently being used, provided such use and/or storage for use is in compliance with the requirements hereof and the other Loan Documents and does not give rise to liability under applicable Legal Requirements or be the basis for a lien against the Property or any part thereof.

(d) Grantor represents and warrants that no actions, suits, or proceedings have been commenced, or are pending, or to the best knowledge of Grantor, are threatened with respect to any Legal Requirement governing the use, manufacture, storage, treatment, transportation, or processing of Hazardous Materials with respect to the Property or any part thereof. Grantor has received no notice of, and, except as disclosed in the Environmental Report, after due inquiry, has no knowledge of any fact, condition, occurrence or circumstance which with notice or passage of time or both would give rise to a claim under or pursuant to any Environmental Statute pertaining to Hazardous Materials on, in, under or originating from the Property or any part thereof or any other real property owned or occupied by Grantor or arising out of the conduct of Grantor, including, without limitation, pursuant to any Environmental Statute.

(e) Grantor has not waived any Person's liability with regard to Hazardous Materials in, on, under or around the Property, nor has Grantor retained or assumed, contractually or by operation of law, any other Person's liability relative to Hazardous Materials or any claim, action or proceeding relating thereto.

(f) In the event that there shall be filed a lien against the Property or any part thereof pursuant to any Environmental Statute pertaining to Hazardous Materials, Grantor shall, within sixty (60) days or, in the event that the applicable Governmental Authority has commenced steps to cause the Premises or any part thereof to be sold pursuant to the lien, within fifteen (15) days, from the date that Grantor receives notice of such lien, either (i) pay the claim and remove the

lien from the Property, or (ii) furnish (A) a bond satisfactory to Lender in the amount of the claim out of which the lien arises, (B) a cash deposit in the amount of the claim out of which the lien arises, or (C) other security reasonably satisfactory to Lender in an amount sufficient to discharge the claim out of which the lien arises.

(g) Grantor represents and warrants that (i) except as disclosed in the Environmental Report, Grantor has no knowledge of any violation of any Environmental Statute or any Environmental Problem in connection with the Property, nor has Grantor been requested or required by any Governmental Authority to perform any remedial activity or other responsive action in connection with any Environmental Problem and (ii) neither the Property nor any other property owned by Grantor is included or, to Grantor's best knowledge, after due inquiry and investigation, proposed for inclusion on the National Priorities List issued pursuant to CERCLA by the United States Environmental Protection Agency (the "EPA") or on the inventory of other potential "Problem" sites issued by the EPA or has been identified by the EPA as a potential CERCLA site or included or, to Grantor's knowledge, after due inquiry and investigation, proposed for inclusion on any list or inventory issued pursuant to any other Environmental Statute, if any, or issued by any other Governmental Authority. Grantor covenants that Grantor will comply with all Environmental Statutes affecting or imposed upon Grantor or the Property.

(h) Grantor covenants that it shall promptly notify Lender of the presence and/or release of any Hazardous Materials and of any request for information or any inspection of the Property or any part thereof by any Governmental Authority with respect to any Hazardous Materials and provide Lender with copies of such request and any response to any such request or inspection. Grantor covenants that it shall, in compliance with applicable Legal Requirements, conduct and complete all investigations, studies, sampling and testing (and promptly shall provide Lender with copies of any such studies and the results of any such test) and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials in, on, over, under, from or affecting the Property or any part thereof in accordance with all such Legal Requirements applicable to the Property or any part thereof to the satisfaction of Lender.

(i) Following the occurrence of an Event of Default hereunder, and without regard to whether Lender shall have taken possession of the Property or a receiver has been requested or appointed or any other right or remedy of Lender has or may be exercised hereunder or under any other Loan Document, Lender shall have the right (but no obligation) to conduct such investigations, studies, sampling and/or testing of the Property or any part thereof as Lender may, in its discretion, determine to conduct, relative to Hazardous Materials. All costs and expenses incurred in connection therewith including, without limitation, consultants' fees and disbursements and laboratory fees, shall constitute a part of the Debt and shall, upon demand by Lender, be immediately due and payable and shall bear interest at the Default Rate from the date so demanded by Lender until reimbursed. Grantor shall, at its sole cost and expense, fully and expeditiously cooperate in all such investigations, studies, samplings and/or testings including, without limitation, providing all relevant information and making knowledgeable people available for interviews.

(j) Grantor represents and warrants that all paint and painted surfaces existing within the interior or on the exterior of the Improvements are not flaking, peeling, cracking, blistering, or chipping, and do not contain lead or are maintained in a condition that prevents exposure of young children to lead-based paint, as of the date hereof, and that the current inspections, operation, and maintenance program at the Property with respect to lead-based paint is consistent with FNMA guidelines and sufficient to ensure that all painted surfaces within the Property shall be maintained in a condition that prevents exposure of tenants to lead-based paint. To Grantor's knowledge, there have been no claims for adverse health effects from exposure on the Property to lead-based paint or requests for the investigation, assessment or removal of lead-based paint at the Property.

(k) Except as otherwise disclosed in the Environmental Report, Grantor represents and warrants that except in accordance with all applicable Environmental Statutes and as disclosed in the Environmental Report, (i) no underground treatment or storage tanks or pumps or water, gas, or oil wells are or have been located about the Property, (ii) no PCBs or transformers, capacitors, ballasts or other equipment that contain dielectric fluid containing PCBs are located about the Property, (iii) no insulating material containing urea formaldehyde is located about the Property and (iv) no asbestos-containing material is located about the Property.

Section 16.02. Environmental Indemnification. Grantor shall defend, indemnify and hold harmless the Indemnified Parties for, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, known or unknown, contingent or otherwise, whether incurred or imposed within or outside the judicial process, including, without limitation, reasonable attorneys' and consultants' fees and disbursements and investigations and laboratory fees arising out of, or in any way related to any Environmental Problem, including without limitation:

(a) the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threat of release of any Hazardous Materials in, on, over, under, from or affecting the Property or any part thereof whether or not disclosed by the Environmental Report;

(b) any personal injury (including wrongful death, disease or other health condition related to or caused by, in whole or in part, any Hazardous Materials) or property damage (real or personal) arising out of or related to any Hazardous Materials in, on, over, under, from or affecting the Property or any part thereof whether or not disclosed by the Environmental Report;

(c) any action, suit or proceeding brought or threatened, settlement reached, or order of any Governmental Authority relating to such Hazardous Material whether or not disclosed by the Environmental Report; and/or

(d) any violation of the provisions, covenants, representations or warranties of Section 16.01 hereof or of any Legal Requirement which is based on or in any way related to any Hazardous Materials in, on, over, under, from or affecting the Property or any part thereof including, without limitation, the cost of any work performed and materials furnished in order to comply therewith whether or not disclosed by the Environmental Report.

Notwithstanding the foregoing provisions of this Section 16.02 to the contrary, Grantor shall have no obligation to indemnify Lender for liabilities, claims, damages, penalties, causes of action, costs and expenses relative to the foregoing which result directly from Lender's willful misconduct or gross negligence. Any amounts payable to Lender by reason of the application of this Section 16.02 shall be secured by this Security Instrument and shall, upon demand by Lender, become immediately due and payable and shall bear interest at the Default Rate from the date so demanded by Lender until paid.

This indemnification shall survive the termination of this Security Instrument whether by repayment of the Debt, foreclosure or deed in lieu thereof, assignment, or otherwise. The indemnity provided for in this Section 16.02 shall not be included in any exculpation of Grantor or its principals from personal liability provided for in this Security Instrument or in any of the other Loan Documents. Nothing in this Section 16.02 shall be deemed to deprive Lender of any rights or remedies otherwise available to Lender, including, without limitation, those rights and remedies provided elsewhere in this Security Instrument or the other Loan Documents.

ARTICLE XVII: ASSIGNMENTS

Section 17.01. Participations and Assignments. Lender shall have the right to assign this Security Instrument and/or any of the Loan Documents, and to transfer, assign or sell participations and subparticipations (including blind or undisclosed participations and subparticipations) in the Loan Documents and the obligations hereunder to any Person; provided, however, that no such participation shall increase, decrease or otherwise affect either Grantor's or Lender's obligations under this Security Instrument or the other Loan Documents.

ARTICLE XVIII: MISCELLANEOUS

Section 18.01. Right of Entry. Lender and its agents shall have the right to enter and inspect the Property or any part thereof at all reasonable times, and, except in the event of an emergency, upon reasonable notice and to inspect Grantor's books and records and to make abstracts and reproductions thereof.

Section 18.02. Cumulative Rights. The rights of Lender under this Security Instrument shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Lender shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision. Lender shall not be limited exclusively to the rights and remedies herein stated but shall be entitled, subject to the terms of this Security Instrument, to every right and remedy now or hereafter afforded by law.

Section 18.03. Liability. If Grantor consists of more than one Person, the obligations and liabilities of each such Person hereunder shall be joint and several.

Section 18.04. Exhibits Incorporated. The information set forth on the cover hereof, and the Exhibits annexed hereto, are hereby incorporated herein as a part of this Security Instrument with the same effect as if set forth in the body hereof.

Section 18.05. Severable Provisions. If any term, covenant or condition of the Loan Documents including, without limitation, the Note or this Security Instrument, is held to be invalid, illegal or unenforceable in any respect, such Loan Document shall be construed without such provision.

Section 18.06. Duplicate Originals. This Security Instrument may be executed in any number of duplicate originals and each such duplicate original shall be deemed to constitute but one and the same instrument.

Section 18.07. No Oral Change. The terms of this Security Instrument, together with the terms of the Note and the other Loan Documents constitute the entire understanding and agreement of the parties hereto and supersede all prior agreements, understandings and negotiations between Grantor and Lender with respect to the Loan. This Security Instrument, and any provisions hereof, may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act on the part of Grantor or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

Section 18.08. Waiver of Counterclaim, Etc. BORROWER HEREBY WAIVES THE RIGHT TO ASSERT A COUNTERCLAIM, OTHER THAN A COMPULSORY COUNTERCLAIM, IN ANY ACTION OR PROCEEDING BROUGHT AGAINST IT BY LENDER OR ITS AGENTS, AND WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING BROUGHT BY EITHER PARTY HERETO AGAINST THE OTHER OR IN ANY COUNTERCLAIM BORROWER MAY BE PERMITTED TO ASSERT HEREUNDER OR WHICH MAY BE ASSERTED BY LENDER OR ITS AGENTS, AGAINST BORROWER, OR IN ANY MATTERS WHATSOEVER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS SECURITY INSTRUMENT OR THE DEBT.

Section 18.09. Headings; Construction of Documents; etc. The table of contents, headings and captions of various paragraphs of this Security Instrument are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof. Grantor acknowledges that it was represented by competent counsel in connection with the negotiation and drafting of this Security Instrument and the other Loan Documents and that neither this Security Instrument nor the other Loan Documents shall be subject to the principle of construing the meaning against the Person who drafted same.

Section 18.10. Sole Discretion of Lender. Whenever Lender exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Lender, the decision of Lender to approve or disapprove or to decide that arrangements or terms are satisfactory or not satisfactory shall be in the sole discretion of Lender and shall be final and conclusive, except as may be otherwise specifically provided herein.

Section 18.11. Waiver of Notice. Grantor shall not be entitled to any notices of any nature whatsoever from Lender except with respect to matters for which this Security Instrument specifically and expressly provides for the giving of notice by Lender to Grantor and except with

respect to matters for which Grantor is not, pursuant to applicable Legal Requirements, permitted to waive the giving of notice.

Section 18.12. Covenants Run with the Land. All of the grants, covenants, terms, provisions and conditions herein shall run with the Premises, shall be binding upon Grantor and shall inure to the benefit of Lender, subsequent holders of this Security Instrument and their successors and assigns. Without limitation to any provision hereof, the term "Grantor" shall include and refer to the borrower named herein, any subsequent owner of the Property, and its respective heirs, executors, legal representatives, successors and assigns. The representations, warranties and agreements contained in this Security Instrument and the other Loan Documents are intended solely for the benefit of the parties hereto, shall confer no rights hereunder, whether legal or equitable, in any other Person and no other Person shall be entitled to rely thereon.

Section 18.13. Applicable Law. THIS SECURITY INSTRUMENT WAS NEGOTIATED IN NEW YORK, AND MADE BY BORROWER AND ACCEPTED BY LENDER IN THE STATE OF NEW YORK, AND THE PROCEEDS OF THE NOTE WERE DISBURSED FROM NEW YORK, WHICH STATE THE PARTIES AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY, AND IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. THIS SECURITY INSTRUMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA, EXCEPT THAT AT ALL TIMES THE PROVISIONS FOR THE CREATION, PERFECTION, PRIORITY, ENFORCEMENT AND FORECLOSURE OF THE LIENS AND SECURITY INTERESTS CREATED HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAW OF THE STATE IN WHICH THE PREMISES ARE LOCATED, IT BEING UNDERSTOOD THAT, TO THE FULLEST EXTENT PERMITTED BY THE LAW OF SUCH STATE, THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE VALIDITY AND ENFORCEABILITY OF ALL LOAN DOCUMENTS, AND THE DEBT OR OBLIGATIONS ARISING HEREUNDER.

Section 18.14. Security Agreement. (a) (i) This Security Instrument is both a real property mortgage, deed to secure debt or deed of trust, as applicable, and a "security agreement" within the meaning of the UCC. The Property includes both real and personal property and all other rights and interests, whether tangible or intangible in nature, of Grantor in the Property. This Security Instrument is filed as a fixture filing and covers goods which are or are to become fixtures on the Property. Grantor by executing and delivering this Security Instrument has granted to Lender, as security for the Debt, a security interest in the Property to the full extent that the Property may be subject to the UCC (said portion of the Property so subject to the UCC being called in this Section 18.14 the "Collateral"). If an Event of Default shall occur, Lender, in addition to any other rights and remedies which it may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party

upon default under the UCC, including, without limiting the generality of the foregoing, the right to take possession of the Collateral or any part thereof, and to take such other measures as Lender may deem necessary for the care, protection and preservation of the Collateral. Upon request or demand of Lender following an Event of Default, Grantor shall, at its expense, assemble the Collateral and make it available to Lender at a convenient place acceptable to Lender. Grantor shall pay to Lender on demand any and all expenses, including reasonable legal expenses and attorneys' fees, incurred or paid by Lender in protecting its interest in the Collateral and in enforcing its rights hereunder with respect to the Collateral. Any disposition pursuant to the UCC of so much of the Collateral as may constitute personal property shall be considered commercially reasonable if made pursuant to a public sale which is advertised at least twice in a newspaper in which sheriff's sales are advertised in the county where the Premises is located. Any notice of sale, disposition or other intended action by Lender with respect to the Collateral given to Grantor in accordance with the provisions hereof at least ten (10) days prior to such action, shall constitute reasonable notice to Grantor. The proceeds of any disposition of the Collateral, or any part thereof, may be applied by Lender to the payment of the Debt in such priority and proportions as Lender in its discretion shall deem proper. It is not necessary that the Collateral be present at any disposition thereof. Lender shall have no obligation to clean-up or otherwise prepare the Collateral for disposition.

(ii) The mention in a financing statement filed in the records normally pertaining to personal property of any portion of the Property shall not derogate from or impair in any manner the intention of this Security Instrument. Lender hereby declares that all items of Collateral are part of the real property encumbered hereby to the fullest extent permitted by law, regardless of whether any such item is physically attached to the Improvements or whether serial numbers are used for the better identification of certain items. Specifically, the mention in any such financing statement of any items included in the Property shall not be construed to alter, impair or impugn any rights of Lender as determined by this Security Instrument or the priority of Lender's lien upon and security interest in the Property in the event that notice of Lender's priority of interest as to any portion of the Property is required to be filed in accordance with the UCC to be effective against or take priority over the interest of any particular class of persons, including the federal government or any subdivision or instrumentality thereof. No portion of the Collateral constitutes or is the proceeds of "Farm Products", as defined in the UCC.

(iii) If Grantor is at any time a beneficiary under a letter of credit now or hereafter issued in favor of Grantor, Grantor shall promptly notify Lender thereof and, at the request and option of Lender, Grantor shall, pursuant to an agreement in form and substance satisfactory to Lender, either (A) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to Lender of the proceeds of any drawing under the letter of credit or (B) arrange for Lender to become the transferee beneficiary of the letter of credit, with Lender agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in this Security Instrument.

(iv) Grantor and Lender acknowledge that for the purposes of Article 9 of the UCC, the law of the State of New York shall be the law of the jurisdiction of the bank in which the Central Account is located.

(v) Lender may comply with any applicable Legal Requirements in connection with the disposition of the Collateral, and Lender's compliance therewith will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(vi) Lender may sell the Collateral without giving any warranties as to the Collateral. Lender may specifically disclaim any warranties of title, possession, quiet enjoyment or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(vii) If Lender sells any of the Collateral upon credit, Grantor will be credited only with payments actually made by the purchaser, received by Lender and applied to the indebtedness of Grantor. In the event the purchaser of the Collateral fails to fully pay for the Collateral, Lender may resell the Collateral and Grantor will be credited with the proceeds of such sale.

(b) Grantor hereby irrevocably appoints Lender as its attorney-in-fact, coupled with an interest, to file with the appropriate public office on its behalf any financing or other statements signed only by Lender, as secured party, or, to the extent permitted under the UCC, unsigned, in connection with the Collateral covered by this Security Instrument.

Section 18.15. Actions and Proceedings. Lender has the right to appear in and defend any action or proceeding brought with respect to the Property in its own name or, if required by Legal Requirements or, if in Lender's reasonable judgment, it is necessary, in the name and on behalf of Grantor, which Lender believes will adversely affect the Property or this Security Instrument and to bring any action or proceedings, in its name or in the name and on behalf of Grantor, which Lender, in its discretion, decides should be brought to protect its interest in the Property.

Section 18.16. Usury Laws. This Security Instrument and the Note are subject to the express condition, and it is the expressed intent of the parties, that at no time shall Grantor be obligated or required to pay interest on the principal balance due under the Note at a rate which could subject the holder of the Note to either civil or criminal liability as a result of being in excess of the maximum interest rate which Grantor is permitted by law to contract or agree to pay. If by the terms of this Security Instrument or the Note, Grantor is at any time required or obligated to pay interest on the principal balance due under the Note at a rate in excess of such maximum rate, such rate of interest shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the principal balance of the Note. No application to the principal balance of the Note pursuant to this Section 18.16 shall give rise to any requirement to pay any prepayment fee or charge of any kind due hereunder, if any.

Section 18.17. Remedies of Grantor. In the event that a claim or adjudication is made that Lender has acted unreasonably or unreasonably delayed acting in any case where by law or under the Note, this Security Instrument or the Loan Documents, it has an obligation to act

reasonably or promptly, Lender shall not be liable for any monetary damages, and Grantor's remedies shall be limited to injunctive relief or declaratory judgment.

Section 18.18. Offsets, Counterclaims and Defenses. Any assignee of this Security Instrument, the Assignment and the Note shall take the same free and clear of all offsets, counterclaims or defenses which are unrelated to the Note, the Assignment or this Security Instrument which Grantor may otherwise have against any assignor of this Security Instrument, the Assignment and the Note and no such unrelated counterclaim or defense shall be interposed or asserted by Grantor in any action or proceeding brought by any such assignee upon this Security Instrument, the Assignment or the Note and any such right to interpose or assert any such unrelated offset, counterclaim or defense in any such action or proceeding is hereby expressly waived by Grantor.

Section 18.19. No Merger. If Grantor's and Lender's estates become the same including, without limitation, upon the delivery of a deed by Grantor in lieu of a foreclosure sale, or upon a purchase of the Property by Lender in a foreclosure sale, this Security Instrument and the lien created hereby shall not be destroyed or terminated by the application of the doctrine of merger and in such event Lender shall continue to have and enjoy all of the rights and privileges of Lender as to the separate estates; and, as a consequence thereof, upon the foreclosure of the lien created by this Security Instrument, any Leases or subleases then existing and created by Grantor shall not be destroyed or terminated by application of the law of merger or as a result of such foreclosure unless Lender or any purchaser at any such foreclosure sale shall so elect. No act by or on behalf of Lender or any such purchaser shall constitute a termination of any Lease or sublease unless Lender or such purchaser shall give written notice thereof to such lessee or sublessee.

Section 18.20. Restoration of Rights. In case Lender shall have proceeded to enforce any right under this Security Instrument by foreclosure sale, entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then, in every such case, Grantor and Lender shall be restored to their former positions and rights hereunder with respect to the Property subject to the lien hereof.

Section 18.21. Waiver of Statute of Limitations. The pleadings of any statute of limitations as a defense to any and all obligations secured by this Security Instrument are hereby waived to the full extent permitted by Legal Requirements.

Section 18.22. Advances. This Security Instrument shall cover any and all advances made pursuant to the Loan Documents, rearrangements and renewals of the Debt and all extensions in the time of payment thereof, even though such advances, extensions or renewals be evidenced by new promissory notes or other instruments hereafter executed and irrespective of whether filed or recorded. Likewise, the execution of this Security Instrument shall not impair or affect any other security which may be given to secure the payment of the Debt, and all such additional security shall be considered as cumulative. The taking of additional security, execution of partial releases of the security, or any extension of time of payment of the Debt shall not diminish the force, effect or lien of this Security Instrument and shall not affect or

impair the liability of Grantor and shall not affect or impair the liability of any maker, surety, or endorser for the payment of the Debt.

Section 18.23. Application of Default Rate Not a Waiver. Application of the Default Rate shall not be deemed to constitute a waiver of any Default or Event of Default or any rights or remedies of Lender under this Security Instrument, any other Loan Document or applicable Legal Requirements, or a consent to any extension of time for the payment or performance of any obligation with respect to which the Default Rate may be invoked.

Section 18.24. Intervening Lien. To the fullest extent permitted by law, any agreement hereafter made pursuant to this Security Instrument shall be superior to the rights of the holder of any intervening lien.

Section 18.25. No Joint Venture or Partnership. Grantor and Lender intend that the relationship created hereunder be solely that of mortgagor and mortgagee or grantor and beneficiary or borrower and lender, as the case may be. Nothing herein is intended to create a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between Grantor and Lender nor to grant Lender any interest in the Property other than that of mortgagee, beneficiary or lender.

Section 18.26. Time of the Essence. Time shall be of the essence in the performance of all obligations of Grantor hereunder.

Section 18.27. Grantor's Obligations Absolute. Grantor acknowledges that Lender and/or certain Affiliates of Lender are engaged in the business of financing, owning, operating, leasing, managing, and brokering real estate and in other business ventures which may be viewed as adverse to or competitive with the business, prospect, profits, operations or condition (financial or otherwise) of Grantor. Except as set forth to the contrary in the Loan Documents, all sums payable by Grantor hereunder shall be paid without notice or demand, counterclaim, set-off, deduction or defense and without abatement, suspension, deferment, diminution or reduction, and the obligations and liabilities of Grantor hereunder shall in no way be released, discharged, or otherwise affected (except as expressly provided herein) by reason of: (a) any damage to or destruction of or any Taking of the Property or any portion thereof or any other Cross-

collateralized Property; (b) any restriction or prevention of or interference with any use of the Property or any portion thereof or any other Cross-collateralized Property; (c) any title defect or encumbrance or any eviction from the Premises or any portion thereof by title paramount or otherwise; (d) any bankruptcy proceeding relating to Grantor, any General Partner, or any guarantor or indemnitor, or any action taken with respect to this Security Instrument or any other Loan Document by any trustee or receiver of Grantor or any other Cross-collateralized Borrower or any such General Partner, guarantor or indemnitor, or by any court, in any such proceeding; (e) any claim which Grantor has or might have against Lender; (f) any default or failure on the part of Lender to perform or comply with any of the terms hereof or of any other agreement with Grantor or any other Cross-collateralized Borrower; or (g) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether or not Grantor shall have notice or knowledge of any of the foregoing.

Section 18.28. Publicity. All promotional news releases, publicity or advertising by Manager, Grantor or their respective Affiliates through any media intended to reach the general public shall not refer to the Loan Documents or the financing evidenced by the Loan Documents, or to Lender or to any of its Affiliates without the prior written approval of Lender or such Affiliate, as applicable, in each instance, such approval not to be unreasonably withheld or delayed. Lender shall be authorized to provide information relating to the Property, the Loan and matters relating thereto to rating agencies, underwriters, potential securities investors, auditors, regulatory authorities and to any Persons which may be entitled to such information by operation of law and may use basic transaction information (including, without limitation, the name of Grantor, the name and address of the Property and the Loan Amount) in press releases or other marketing materials.

Section 18.29. Securitization Opinions. In the event the Loan is included as an asset of a Securitization by Lender or any of its Affiliates, Grantor shall, within ten (10) Business Days after Lender's written request therefor, at Grantor's sole cost and expense, deliver opinions in form and substance and delivered by counsel reasonably acceptable to Lender and each Rating Agency, as may be reasonably required by Lender and/or the Rating Agency in connection with such securitization. Grantor's failure to deliver the opinions required hereby within such ten (10) Business Day period shall constitute an "Event of Default" hereunder.

Section 18.30. Cooperation with Rating Agencies, etc. Grantor covenants and agrees that in the event the Loan is to be included as an asset of a Securitization, Grantor shall (a) gather any information reasonably required by each Rating Agency in connection with such a Securitization, (b) at Lender's request, meet with representatives of each Rating Agency to discuss the business and operations of the Property, and (c) cooperate with the reasonable requests of each Rating Agency and Lender in connection with all of the foregoing as well as in connection with all other matters and the preparation of any offering documents with respect thereto, including, without limitation, entering into any amendments or modifications to this Security Instrument or to any other Loan Document which may be requested by Lender to conform to Rating Agency or market standards for a Securitization provided that no such modification shall modify (a) the interest rate payable under the Note, (b) the stated maturity of the Note, (c) the amortization of principal under the Note, (d) Section 18.32 hereof, (e) any other material economic term of the Loan or (f) any provision, the effect of which would materially increase Grantor's obligations or materially decrease Grantor's rights under the Loan Documents. Grantor acknowledges that the information provided by Grantor to Lender may be incorporated into the offering documents for a Securitization and to the fullest extent permitted, Grantor irrevocably waives all rights, if any, to prohibit such disclosures including, without limitation, any right of privacy. Lender and each Rating Agency shall be entitled to rely on the information supplied by, or on behalf of, Grantor and Grantor indemnifies and holds harmless the Indemnified Parties, their Affiliates and each Person who controls such Persons within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as same may be amended from time to time, for, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, known or unknown, contingent or otherwise, whether incurred or imposed within or outside the judicial process, including, without limitation, reasonable attorneys' fees and disbursements that

arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in such information or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated in such information or necessary in order to make the statements in such information, or in light of the circumstances under which they were made, not misleading.

Section 18.31. Securitization Financials. Grantor covenants and agrees that, upon Lender's written request therefor in connection with a Securitization, Grantor shall, at Grantor's sole cost and expense, promptly deliver (a) audited financial statements and related documentation prepared by an Independent certified public accountant that satisfy securities laws and requirements for use in a public registration statement (which may include up to three (3) years of historical audited financial statements) and (b) if, at the time one or more Disclosure Documents are being prepared in connection with a Securitization, Lender expects that Grantor alone or Grantor and one or more of its Affiliates collectively, or the Property alone or the Property and any other parcel(s) of real property, together with improvements thereon and personal property related thereto, that is "related", within the meaning of the definition of Significant Obligor, to the Property (a "Related Property") collectively, will be a Significant Obligor, Grantor shall furnish to Lender upon request (i) the selected financial data or, if applicable, net operating income, required under Item 1112(b)(1) of Regulation AB and meeting the requirements thereof, if Lender expects that the principal amount of the Loan, together with any loans made to an Affiliate of Grantor or secured by a Related Property that is included in a Securitization with the Loan (a "Related Loan"), as of the cut-off date for such Securitization may, or if the principal amount of the Loan together with any Related Loans as of the cut-off date for such Securitization and at any time during which the Loan and any Related Loans are included in a Securitization does, equal or exceed ten percent (10%) (but less than twenty percent (20%)) of the aggregate principal amount of all mortgage loans included or expected to be included, as applicable, in the Securitization or (ii) the financial statements required under Item 1112(b)(2) of Regulation AB and meeting the requirements thereof, if Lender expects that the principal amount of the Loan together with any Related Loans as of the cut-off date for such Securitization may, or if the principal amount of the Loan together with any Related Loans as of the cut-off date for such Securitization and at any time during which the Loan and any Related Loans are included in a Securitization does, equal or exceed twenty percent (20%) of the aggregate principal amount of all mortgage loans included or expected to be included, as applicable, in the Securitization. Such financial data or financial statements shall be furnished to Lender within ten (10) Business Days after notice from Lender in connection with the preparation of Disclosure Documents for the Securitization and, with respect to the data or financial statements required pursuant to clause (b) hereof, (A) not later than thirty (30) days after the end of each fiscal quarter of Grantor and (B) not later than seventy-five (75) days after the end of each Fiscal Year; provided, however, that Grantor shall not be obligated to furnish financial data or financial statements pursuant to clauses (A) or (B) of this sentence with respect to any period for which a filing pursuant to the Securities Exchange Act of 1934 in connection with or relating to the Securitization is not required.

Section 18.32. Exculpation. Notwithstanding anything herein or in any other Loan Document to the contrary, except as otherwise set forth in this Section 18.32 to the contrary,

Lender shall not enforce the liability and obligation of Grantor or (a) if Grantor is a partnership, its constituent partners or any of their respective partners, (b) if Grantor is a trust, its beneficiaries or any of their respective Partners (as hereinafter defined), (c) if Grantor is a corporation, any of its shareholders, directors, principals, officers or employees, or (d) if Grantor is a limited liability company, any of its members (the Persons described in the foregoing clauses (a) - (d), as the case may be, are hereinafter referred to as the "Partners") to perform and observe the obligations contained in this Security Instrument or any of the other Loan Documents by any action or proceeding wherein a money judgment shall be sought against Grantor or the Partners, except that Lender may bring a foreclosure action, action for specific performance, or other appropriate action or proceeding (including, without limitation, an action to obtain a deficiency judgment) solely for the purpose of enabling Lender to realize upon (i) Grantor's interest in the Property, (ii) the Rent to the extent (x) received by Grantor (or received by its Partners) after the occurrence of an Event of Default, or (y) distributed to Grantor (or its Partners, but only to the extent received by its Partners) during or with respect to any period for which Grantor was required, but failed to deliver to Lender a Manager Certification accurate in all material respects confirming and certifying that all Operating Expenses with respect to the Property which had accrued as of the applicable date of such Manager Certification had been paid (or if same had not been paid, that Manager had taken adequate reserves therefor) (all Rent covered by clauses (x) and (y) being hereinafter referred to as the "Recourse Distributions") and (iii) any other collateral given to Lender under the Loan Documents (the collateral described in the foregoing clauses (i) - (iii) is hereinafter referred to as the "Default Collateral"); provided, however, that any judgment in any such action or proceeding shall be enforceable against Grantor and the Partners only to the extent of any such Default Collateral. The provisions of this Section shall not, however, (a) impair the validity of the Debt evidenced by the Note or in any way affect or impair the lien of this Security Instrument or any of the other Loan Documents or the right of Lender to foreclose this Security Instrument following the occurrence of an Event of Default; (b) impair the right of Lender to name Grantor as a party defendant in any action or suit for judicial foreclosure and sale under this Security Instrument; (c) affect the validity or enforceability of the Note, this Security Instrument, or any of the other Loan Documents, or impair the right of Lender to seek a personal judgment against Guarantor; (d) impair the right of Lender to obtain the appointment of a receiver; (e) impair the enforcement of the Assignment; (f) impair the right of Lender to bring suit for a monetary judgment with respect to fraud or material misrepresentation by Grantor, Guarantor or any Affiliate of Grantor or Guarantor in connection with this Security Instrument, the Note or the other Loan Documents, and the foregoing provisions shall not modify, diminish or discharge the liability of Grantor or the Partners with respect to same; (g) impair the right of Lender to bring suit for a monetary judgment to obtain the Recourse Distributions received by Grantor including, without limitation, the right to bring suit for a monetary judgement to proceed against any Partner, to the extent of any such Recourse Distributions theretofore distributed to and received by such Partner, and the foregoing provisions shall not modify, diminish or discharge the liability of Grantor or the Partners with respect to same; (h) impair the right of Lender to bring suit for a monetary judgment with respect to Grantor's misappropriation of tenant security deposits or Rent, and the foregoing provisions shall not modify, diminish or discharge the liability of Grantor or the Partners with respect to same; (i) impair the right of Lender to obtain Loss Proceeds due to Lender pursuant to this Security Instrument; (j) impair the right of Lender to enforce the provisions of Sections 2.02(g), 12.01, 16.01 or 16.02, inclusive of

this Security Instrument, even after repayment in full by Grantor of the Debt or to bring suit for a monetary judgment against Grantor or the Partners with respect to any obligation set forth in said Sections; (k) prevent or in any way hinder Lender from exercising, or constitute a defense, or counterclaim, or other basis for relief in respect of the exercise of, any other remedy against any or all of the collateral securing the Note as provided in the Loan Documents; (l) impair the right of Lender to bring suit for a monetary judgment with respect to any misappropriation or conversion of Loss Proceeds, and the foregoing provisions shall not modify, diminish or discharge the liability of Grantor or the Partners with respect to same; (m) impair the right of Lender to sue for, seek or demand a deficiency judgment against Grantor solely for the purpose of foreclosing the Property or any part thereof, or realizing upon the Default Collateral; provided, however, that any such deficiency judgment referred to in this clause (m) shall be enforceable against Grantor and the Partners (but only to the extent distributed to and actually received by such Partner) only to the extent of any of the Default Collateral; (n) impair the ability of Lender to bring suit for a monetary judgment with respect to damage, arson or waste to or of the Property by Grantor, Guarantor or any Affiliate of Grantor or Guarantor; (o) impair the right of Lender to bring a suit for a monetary judgment in the event of the exercise of any right or remedy under any federal, state or local forfeiture laws resulting in the loss of the lien of this Security Instrument, or the priority thereof, against the Property; (p) be deemed a waiver of any right which Lender may have under Sections 506(a), 506(b), 1111(b) or any other provision of the Bankruptcy Code to file a claim for the full amount of the Debt or to require that all collateral shall continue to secure all of the Debt; (q) impair the right of Lender to bring suit for monetary judgment with respect to any losses resulting from any claims, actions or proceedings initiated by Grantor (or any Affiliate of Grantor) alleging that the relationship of Grantor and Lender is that of joint venturers, partners, tenants in common, joint tenants or any relationship other than that of debtor and creditor; (r) impair the right of Lender to bring suit for a monetary judgment in the event of a Transfer in violation of the provisions of Article IX hereof; (s) impair the right of Lender to bring suit for a monetary judgment in the event that Grantor moves its principal place of business or its books and records relating to the Property which are governed by the UCC, or changes its name, its jurisdiction of organization, type of organization or other legal structure or, if it has one, organizational identification number, without first giving Lender thirty (30) days prior written notice or (t) impair the right of Lender to bring suit for a monetary judgment in the event that Grantor changes its name or otherwise does anything which would make the information set forth in any UCC Financing Statements relating to the Property materially misleading without giving Lender thirty (30) days prior written notice thereof. The provisions of this Section 18.32 shall be inapplicable to Grantor if (a) any proceeding, action, petition or filing under the Bankruptcy Code, or any similar state or federal law now or hereafter in effect relating to bankruptcy, reorganization or insolvency, or the arrangement or adjustment of debts, shall be filed by or consented to by Grantor or, if Grantor colluded in such filing, or if Grantor shall institute any proceeding for its dissolution or liquidation, or shall make an assignment for the benefit of creditors or (b) Grantor or any Affiliate contests or in any material way interferes with, directly or indirectly (collectively, a "Contest") any foreclosure action, UCC sale or other material remedy exercised by Lender upon the occurrence of any Event of Default whether by making any motion, bringing any counterclaim, claiming any defense, seeking any injunction or other restraint, commencing any action, or otherwise (provided that if any such Person obtains a non-appealable order successfully asserting a Contest, Grantor shall have no liability under this

clause (b)), in which event Lender shall have recourse against all of the assets of Grantor including, without limitation, any right, title and interest of Grantor in and to the Property, any partnership interests in Grantor and any Recourse Distributions received by the Partners of Grantor (but excluding the other assets of such Partners to the extent Lender would not have had recourse thereto other than in accordance with the provisions of this Section 18.32).

Section 18.33. Component Notes. Lender, without in any way limiting Lender's other rights hereunder, in its sole and absolute discretion, shall have the right at any time to require Grantor to execute and deliver "component" notes (including senior and junior notes), which notes may be paid in such order of priority as may be designated by Lender, provided that (a) the aggregate principal amount of such "component" notes shall equal the outstanding principal balance of the Loan immediately prior to the creation of such "component" notes, (b) the weighted average interest rate of all such "component" notes shall on the date created equal the interest rate which was applicable to the Loan immediately prior to the creation of such "component" notes, (c) the debt service payments on all such "component" notes shall on the date created equal the debt service payment which was due under the Loan immediately prior to the creation of such component notes and (d) the other terms and provisions of each of the "component" notes shall be identical in substance and substantially similar in form to the Loan Documents. Grantor shall cooperate with all reasonable requests of Lender in order to establish the "component" notes and shall execute and deliver such documents as shall reasonably be required by Lender in connection therewith, all in form and substance reasonably satisfactory to Lender, including, without limitation, the severance of security documents if requested. It shall be an Event of Default if Grantor fails to comply with any of the terms, covenants or conditions of this Section 18.33 after the expiration of ten (10) Business Days after notice thereof.

Section 18.34. Substitution of the Property. Subject to the terms and conditions set forth in this Section 18.34, Grantor shall have the one (1) time right to obtain a release of the lien of this Security Instrument (and the related Loan Documents) encumbering the Property (for purposes of this section only, hereinafter referred to as, "Substituted Property") by substituting therefor its fee interest in another first class "upscale" hotel property of like kind and quality (which shall include, among other things, the franchise name and franchise system of the hotel currently being operated at the Substituted Property, the geographic diversity of the Substituted Property vis-à-vis the Cross-collateralized Properties, and markets and submarkets with, among other similarities, similar demographics, employment rates, vacancy rates, populations, absorption trends, accessibility and visibility and projected new rooms or renovations) acquired by Grantor (individually, a "Replacement Property" and collectively, the "Replacement Properties"). In addition, any such substitution shall be subject, in each case, to the satisfaction of the following conditions precedent: No Event of Default shall have occurred and be continuing and Lender shall have received a certificate from Grantor which would be acceptable to a prudent institutional Lender, effectuating a substitution in connection with a mortgage loan similar to the Loan confirming the foregoing.

(a) Grantor shall have given Lender at least sixty (60) days prior written notice of its election to substitute the Substituted Property.

(b) Grantor shall have paid to Lender a processing fee in an amount equal to $20,000.

(c) Lender shall have received an MAI appraisal of the Replacement Property which would be acceptable to a prudent Institutional Lender originating a mortgage loan for its own portfolio which is similar to the Loan and dated no more than forty-five (45) days prior to the substitution by an appraiser acceptable to Lender, indicating a value of the Replacement Property that is at least equal to one hundred five percent (105%) of the value of the Substituted Property as of (i) the date hereof or (ii) the date immediately preceding the substitution, whichever is greater.

(d) The Net Operating Income for the Replacement Property for each of the three (3) years immediately preceding the substitution must be equal to or greater than the Net Operating Income of the Substituted Property for each of those three (3) years.

(e) After giving effect to the substitution, the Aggregate Debt Service Coverage is at least equal to the greater of (i) the Aggregate Debt Service Coverage as of the Closing Date or (ii) the Aggregate Debt Service Coverage as of the date immediately preceding the substitution.

(f) Lender shall have received a phase 1 environmental report and, if recommended under the phase 1 environmental report, a phase 2 environmental report from a nationally recognized environmental consultant approved by Lender not less than forty-five (45) days prior to such release and substitution, which conclude that the Replacement Property does not contain any Hazardous Materials (except for cleaning and other products used in connection with the routine maintenance or repair of the Replacement Property or the operation thereof as a first class "upscale" hotel in full compliance with Environmental Statutes), is not subject to any risk of contamination from any off-site Hazardous Materials, and is not in violation of any Environmental Statutes.

(g) Lender shall have received a physical conditions report with respect to the Replacement Property from a nationally recognized structural consultant approved by Lender in a form recognized and approved by Lender not less than forty-five (45) days prior to such release and substitution stating that the Replacement Property and its use comply in all respects with all applicable Legal Requirements (including, without limitation, zoning, subdivision and building laws) and that the Replacement Property is in good condition and repair and free of damage or waste. If compliance with any Legal Requirements is not addressed by the physical conditions report, such compliance shall be confirmed by delivery to Lender of a certificate of an architect licensed in the State in which the Replacement Property is located, a letter from the municipality in which such Replacement Property is located, a certificate of a surveyor that is licensed in the State in which the Replacement Property is located (with respect to Development Laws and Use Requirements), an ALTA 3.1 zoning endorsement to the title insurance policy delivered pursuant to clause (l) below (with respect to zoning laws) or a subdivision endorsement to the title insurance policy delivered pursuant to clause (m) below (with respect to subdivision laws) to the extent such endorsements are available in the jurisdiction in which the Replacement Property is located. If the physical conditions report recommends that any repairs be made with respect to the Replacement Property, such physical conditions report shall either (i) include an estimate of the cost of such recommended repairs (in which case Grantor shall deposit into the Engineering

Escrow Sub-Account an amount equal to one hundred twenty-five percent (125%) of such estimated cost), or (ii) state the specific amounts that need to be reserved over time in order to meet the requirements of such replacements, but in no event less than four percent (4%) of gross revenues of the Property (in which case Grantor shall deposit such reserves into the Recurring Replacement Reserve Sub-Account on a monthly basis). Grantor covenants to undertake any repairs, cleanup or remediation indicated in the physical conditions report before the earlier of (i) the time required by applicable Legal Requirements or (ii) the time recommended in the physical conditions report (not to exceed twelve (12) months).

(h) Lender shall have received annual operating statements and occupancy statements for the Replacement Property for the three (3) most recently completed Fiscal Years and a current operating statement for the Substituted Property. Each of the statements required under this clause (i) shall be certified to Lender as being true and correct and accompanied by a certificate from Grantor certifying that there has been no adverse change in the financial condition of the Replacement Property since the date of such operating statements.

(i) Lender shall have received (i) a copy of a deed conveying all of Grantor's right, title and interest in and to the Substituted Property to a Person other than an Affiliate of Grantor in a bona fide arms' length transaction, (ii) a copy of a deed conveying all of Replacement Property owner's right, title and interest in and to the Replacement Property to Grantor in a bona fide arms' length transaction, (iii) evidence that the Replacement Property owner is (x) Solvent at the time of the transfer of the Replacement Property, and (y) not an Affiliate of Grantor and (z) a letter from Grantor countersigned by a title insurance company acknowledging receipt of (1) the deeds and agreeing to record such deeds in the appropriate real estate records for the respective counties in which the Substituted Property and Replacement Property are located and (2) all required transfer taxes or charges and recording fees or other applicable fees and charges.

(j) Grantor shall have executed, acknowledged and delivered to Lender (i) a mortgage, an assignment of leases and rents and two (2) UCC financing statements with respect to the Replacement Property, together with a letter from Grantor countersigned by a title insurance company acknowledging receipt of such mortgage, assignment of leases and rents and UCC-1 financing statements and agreeing to record or file, as applicable, such mortgage, assignment of leases and rents and one of the UCC-1 financing statements in the real estate records for the county in which the Replacement Property is located and to file one of the UCC-1 financing statements in the office of the Secretary of State of the State in which the Grantor is located, so as to effectively create upon such recording and filing valid and enforceable liens upon the Replacement Property, of first priority, in favor of Lender (or such other trustee as may be desired under local law), subject only to the Permitted Encumbrances and such other liens as are permitted pursuant to the Loan Documents, (ii) an environmental indemnity with respect to the Replacement Property, (iii) written confirmation from each Guarantor regarding such substitution, (iv) modifications to the Loan Documents as a prudent Institutional Lender would require when effectuating a substitution in connection with a mortgage loan similar to the Loan which such Institutional Lender has originated for its own portfolio. The mortgage, assignment of leases and rents, UCC-1 financing statements and environmental indemnity shall be the same in form and substance as the counterparts of such documents executed and delivered with respect

to the Substituted Property subject to modifications reflecting the Replacement Property as the property that is the subject of such documents and such modifications reflecting the laws of the State in which the Replacement Property is located as shall be recommended by the counsel admitted to practice in such state and delivering the opinion as to the enforceability of such documents required pursuant to clause (q) below. The mortgage encumbering the Replacement Property shall be cross-defaulted and cross-collateralized with the Cross-collateralized Mortgages encumbering the Cross-collateralized Properties. The mortgage encumbering the Replacement Property shall secure all amounts evidenced by the Note. The amount of the Loan allocated to the Replacement Property (such amount being hereinafter referred to as the "Substitute Allocated Loan Amount") shall equal the Allocated Loan Amount of the Substituted Property.

(k) Lender shall have received (i) a "tie-in" or similar endorsement to each title insurance policy insuring the lien of the existing Cross-collateralized Mortgages as of the date of the substitution available with respect to the title insurance policy insuring the lien of the mortgage with respect to the Replacement Property, (ii) a title insurance policy (or a marked, signed and redated commitment to issue such title insurance policy) insuring the lien of the mortgage encumbering the Replacement Property, issued by the title company that issued the title insurance policies insuring the liens of the Cross-collateralized Mortgages encumbering the applicable Cross-collateralized Properties and dated as of the date of the substitution, with reinsurance and direct access agreements that replace such agreements issued in connection with the title insurance policy insuring the lien of the Cross-collateralized Mortgage encumbering the Substituted Property, to the extent such agreements are available in the State in which the Replacement Property is located, and (iii) reasonably requested endorsements to the title policies delivered to Lender in connection with the Cross-collateralized Mortgages to reflect the substitution. The title insurance policy issued with respect to the Replacement Property shall (i) provide coverage in the amount of the substitute release amount if the "tie-in" or similar endorsement described above is available or, if such endorsement is not available, in an amount equal to one hundred twenty-five percent (125%) of the value of Replacement Property, (ii) insure Lender that the mortgage creates a valid first lien on the Replacement Property encumbered thereby, free and clear of all exceptions from coverage other than Permitted Encumbrances and standard exceptions and exclusions from coverage (as modified by the terms of any endorsements), (iii) contain such endorsements and affirmative coverages as are contained in each title insurance policy insuring the lien of the existing Cross-collateralized Mortgages and (iv) name Lender as the insured. Lender also shall have received copies of paid receipts showing that all premiums in respect of such endorsements and title insurance policies have been paid.

(l) Lender shall have received (i) an endorsement to the title insurance policy insuring the lien of the mortgage encumbering the Replacement Property insuring that the Replacement Property constitutes a separate tax lot or, if such an endorsement is not available in the state in which the Replacement Property is located, a letter from the title insurance company issuing such title insurance policy stating that the substitute policy constitutes a separate tax lot or (ii) a letter from the appropriate taxing authority stating that the Replacement Property constitutes a separate tax lot.

(m) Lender shall have received a current title survey for the Replacement Property, certified to the title company and Lender and their successors and assigns, in the same form and having the same content as the certification of the survey of the Substituted Property prepared by a professional land surveyor licensed in the State in which the Replacement Property is located in accordance with the 1999 minimum standard detail requirements for ALTA/ACSM land title surveys, including items 2, 3, 4, 6, 7, 8, 9, 10, 11 and 13 from Table A. Such survey shall reflect the same legal description contained in the title insurance policy relating to the Replacement Property and shall include, among other things, a metes and bounds description of the real property comprising part of such Replacement Property. The surveyor's seal shall be affixed to each survey and each survey shall certify that the surveyed property is not located in a "one-hundred-year flood hazard area."

(n) Lender shall have received valid certificates of insurance indicating that the requirements for the policies of insurance required for the Substituted Property hereunder have been satisfied with respect to the Replacement Property and evidence of the payment of all premiums payable for the existing policy period.

(o) Grantor shall deliver or cause to be delivered to Lender (i) updates certified by Grantor of all organizational documentation related to Grantor and/or the formation, structure, existence, good standing and/or qualification to do business delivered to Lender in connection with the closing date; (ii) good standing certificates, certificates of qualification to do business in the State in which the Replacement Property is located (if required in such State) and (iii) if applicable, resolutions of the General Partner authorizing the substitution and any actions taken in connection with such substitution.

(p) Lender shall have received the following opinions of Grantor's counsel, all of which shall be in form and substance which would be acceptable to a prudent Institutional Lender originating a mortgage loan for its own portfolio which is similar to the Loan: (i) an opinion of counsel admitted to practice under the laws of the State in which the Replacement Property and, as applicable, the Cross-collateralized Properties, are located stating that the Loan Documents delivered with respect to the Replacement Property and, as applicable, the Cross-collateralized Properties, pursuant to clause (k) above are valid and enforceable in accordance with their terms, subject to the laws applicable to creditors' rights and equitable principles, and that Grantor is qualified to do business and in good standing under the laws of the jurisdiction where the Replacement Property and, as applicable, the Cross-collateralized Properties, are located or that Grantor is not required by applicable law to qualify to do business in such jurisdiction; (ii) an opinion of counsel stating that the loan documents delivered pursuant to clause (k) above were duly authorized, executed and delivered by Grantor and that, to the best of Grantor's counsel's knowledge, the execution and delivery of such loan documents and the performance by Grantor of its obligations thereunder will not cause a breach of, or a default under, any agreement, document or instrument to which Grantor is a party or to which it or its properties are bound; (iii) an opinion of counsel stating that subjecting the Replacement Property to the lien of the related mortgage and the execution and delivery of the related loan documents does not and will not affect or impair the ability of Lender to enforce its remedies under all of the Loan Documents or to realize the benefits of the cross-collateralization provided for thereunder;

(iv) an update of the insolvency opinion indicating that the substitution does not affect the opinions set forth therein; (v) an opinion of counsel stating that the substitution and the related transactions do not constitute a fraudulent conveyance under applicable bankruptcy and insolvency laws; (vi) an opinion of counsel stating that the substitution does not constitute a "significant modification" of the Loan or "deemed exchange" of the Note under Treasury Regulation Section 1.860G-2(b) or otherwise cause any "real estate mortgage investment conduit" within the

meaning of Section 860D of the Code ("REMIC") to fail to maintain its status as a REMIC as a result of such substitution and (vii) such other opinions as a prudent Institutional Lender holding a mortgage loan in a REMIC which is similar to the Loan would require.

(q) Lender shall have received copies of all tenant leases affecting the Replacement Property certified by Grantor as being true and correct. Lender shall have received a current rent roll of the Replacement Property certified by Grantor as being true and correct.

(r) Grantor shall have delivered to Lender estoppel certificates from any lessee and other tenants of the Replacement Property. All such estoppel certificates shall indicate, among other things, that (i) the subject lease is a valid and binding obligation of the tenant thereunder, (ii) there are no defaults under such lease on the part of the landlord or tenant thereunder, (iii) the tenant thereunder has no defense or offset to the payment of rent under such leases, (iv) no rent under such lease has been paid more than one (1) month in advance, (v) the tenant thereunder has no option or right of first refusal under such lease to purchase all or any portion of the Replacement Property and (vi) all tenant improvement work required under such lease has been completed and the tenant under such lease is in actual occupancy of its leased premises.

(s) Lender shall have received subordination, nondisturbance and attornment agreements on Lender's then current form with respect to any leases which are not subordinate by their terms to the mortgage with respect to the Replacement Property.

(t) Lender shall have received and approved each Operating Lease, lessee, thereunder, and the management agreement and manager relating to the Replacement Property.

(u) Lender shall have received copies of all contracts and agreements relating to the leasing and operation of the Replacement Property together with a certification of Grantor attached to each such contract or agreement certifying that the attached copy is a true and correct copy of such contract or agreement and all amendments thereto.

(v) Lender shall have received such other and further approvals, opinions, documents and information in connection with the substitution as a prudent Institutional Lender originating a mortgage loan for its own portfolio similar to the Loan would require.

(w) If the Loan is part of a Securitization and the Property is one of the ten (10) largest Cross-collateralized Properties (by Allocated Loan Amount as of the Closing Date) or if more than ten percent (10%) in the aggregate (by Loan principal balance) has been or is proposed to be substituted, the Rating Agencies shall have confirmed in writing that any rating

issued by the Rating Agencies in connection with the Securitization will not, as a result of the proposed substitution, be downgraded from the current ratings thereof, qualified or withdrawn.

(x) If the Loan is not part of a Securitization, the Replacement Property shall be acceptable to Lender in all respects in its sole discretion.

(y) Grantor shall have paid or reimbursed Lender for all third party out-of-pocket costs and expenses incurred by Lender (including, without limitation, reasonable attorneys fees and disbursements) in connection with the substitution and Grantor shall have paid all Ratings Agency fees, recording charges, filing fees, taxes and other expenses (including, without limitation, mortgage and intangibles taxes and documentary stamp taxes) payable in connection with the substitution.

(z) Grantor shall submit to Lender, not less than thirty (30) days prior to the date of such substitution, a release of lien for the Substituted Property for execution by Lender which is in a form appropriate for the jurisdiction in which the Substituted Property is located.

(aa) On or prior to the date of substitution, Grantor shall deliver an Officer's Certificate dated as of the date of substitution certifying that the requirements set forth in this Section 18.34 have been satisfied.

Upon the satisfaction of the foregoing conditions precedent, as determined by Lender, Lender will release its lien from the Substituted Property and the Replacement Property shall be deemed to be the Property for purposes of the Cross-collateralized Mortgages and the Allocated Loan Amount with respect to the Substituted Property shall be deemed to be the Allocated Loan with respect to the Replacement Property for all purposes hereunder.

Section 18.35. Certain Matters Relating to Property Located in the State of Florida. With respect to the Property which is located in the State of Florida, notwithstanding anything contained herein to the contrary:

(a) It is agreed that, in addition to existing indebtedness, any future advances made by the then holder of the Note to or for the benefit of Grantor or Grantor's permitted assignees, whether such advances are obligatory or are made at the option of Lender, or otherwise, at any time within twenty (20) years from the date of this Security Instrument, with interest thereon at the rate agreed upon at the time of each additional loan or advance, shall be equally secured with and have the same priority as the Debt and be subject to all of the terms and provisions of this Security Instrument, whether or not such additional loan or advance is evidenced by a promissory note of Grantor and whether or not identified by a recital that it is secured by this Security Instrument; provided that, although the total amount of the indebtedness that may be secured may decrease to zero from time to time or may increase from time to time, the aggregate amount of outstanding Debt so secured at any one time shall not exceed the sum of two (2) times the Loan Amount, plus interest and disbursements made for the payment of taxes, levies or insurance on the Property with interest on such disbursements. It is understood and agreed that this future advance provision shall not be construed to obligate Lender to make any such additional loans or advances. It is further agreed that any additional note or notes executed and

delivered under this future advance provision shall be included in the words "Note" or "Debt" wherever either appears in the context of this Security Instrument. Grantor, for itself and its successors in title and its successors and permitted assigns, hereby expressly waives and relinquishes any rights granted under Section 697.04 of the Florida Statutes, or otherwise, to limit the amount of indebtedness that may be secured by this Security Instrument at any time during the term of this Security Instrument. Grantor further covenants not to file for record any notice limiting the maximum principal amount that may be secured by this Security Instrument and agrees that any such notice, if filed, shall be null and void; and except as hereinafter provided, of no effect. In the event that, notwithstanding the foregoing covenant, Grantor or its successor in title files for record any notice limiting the maximum principal amount that may be secured by this Security Instrument in violation of the foregoing covenant, the Debt shall, at the option of Lender, become immediately due and payable.

(b) Notwithstanding anything to the contrary contained in this Security Instrument, Lender shall comply with the requirements of Section 501.137. Florida Statutes, as applicable, with respect to the payment of Impositions and insurance premiums from the Basic Carrying Costs Sub-Account so that the maximum tax discount available may be obtained with regard to the Premises and so that insurance coverage on the Property does not lapse.

(c) The assignment of leases and rents contained in this Security Instrument is intended to provide Lender with all the rights and remedies of lenders pursuant to Section 697.07 of the Florida Statutes (hereinafter "Section 697.07"), as may be amended from time to time. However, in no event shall this reference diminish, alter, impair, or affect any other rights and remedies of Lender, including but not limited to, the appointment of a receiver as provided herein, nor shall any provision in this Section diminish, alter, impair or affect any rights or powers of the receiver in law or equity or as set forth herein. In addition, this assignment shall be fully operative without regard to value of the Property or without regard to the adequacy of the Property to serve as security for the obligations owed by Grantor to Lender, and shall be in addition to any rights arising under Section 697.07. Further, except for the notices required hereunder, if any, Grantor waives any notice of default or demand for turnover of rents by Lender, together with any rights under Section 697.07 to apply to a court to deposit the Rents into the registry of the court or such other depository as the court may designate.

Section 18.36. Certain Matters Relating to Property Located in the State of Illinois. With respect to the Property which is located in the State of Illinois, notwithstanding anything contained herein to the contrary:

(a) COMPLIANCE WITH ILLINOIS MORTGAGE FORECLOSURE LAW.

If any provision in this Security Instrument is determined to be inconsistent with any provision of the Illinois Mortgage Foreclosure Law (735 ILCS 5/15-1101 et seq., as amended) (the "IMFL"), the provisions of the IMFL shall take precedence over the provisions of this Security Instrument, but shall not invalidate or render unenforceable any other provisions of this Security Instrument that can be construed in a manner consistent with the IMFL.

If any provision of this Security Instrument shall grant to Lender any rights or remedies upon an Event of Default which are more limited than the rights that would otherwise be vested in Lender under the IMFL in the absence of such provision, Lender shall be vested with the rights granted in the IMFL to the full extent permitted by law.

Without limiting the generality of the foregoing, all expenses incurred by Lender to the extent reimbursable under Sections 15-1510 and 15-1512 of the IMFL, whether incurred before or after any decree or judgment of foreclosure, and whether enumerated in this Security Instrument, shall be added to the Debt secured by this Security Instrument or by the judgment of foreclosure.

Without limiting the generality of the foregoing, this Security Instrument also secures all future advances made pursuant to the terms of this Security Instrument or the other Loan Documents made after this Security Instrument is recorded, including but not limited to all monies so advanced by Lender in accordance with the terms of this Security Instrument to (A) preserve or restore the Property, (B) preserve the lien of this Security Instrument or the priority thereof or (C) enforce this Security Instrument, and, to the full extent permitted by Subsection (b)(5) of Section 15-1302 of the IMFL or other law, shall be a lien from the time this Security Instrument is recorded.

(b) **WAIVER OF STATUTORY RIGHTS. GRANTOR ACKNOWLEDGES THAT THE TRANSACTION OF WHICH THIS SECURITY INSTRUMENT IS A PART IS A TRANSACTION WHICH DOES NOT INCLUDE EITHER AGRICULTURAL REAL ESTATE (AS DEFINED IN SECTION 15-1201 OF THE IMFL), OR RESIDENTIAL REAL ESTATE (AS DEFINED IN SECTION 15-1219 OF THE IMFL), AND TO THE FULL EXTENT PERMITTED BY LAW, VOLUNTARILY AND KNOWINGLY WAIVES GRANTOR'S RIGHTS TO REINSTATEMENT AND REDEMPTION AS ALLOWED UNDER SECTION 15-1601(B) OF THE IMFL, AND TO THE FULL EXTENT PERMITTED BY LAW, THE BENEFITS OF ALL PRESENT AND FUTURE VALUATION, APPRAISEMENT, HOMESTEAD, EXEMPTION, STAY, REDEMPTION AND MORATORIUM LAWS UNDER ANY STATE OR FEDERAL LAW.**

(c) FIXTURE FILING. THIS INSTRUMENT IS EFFECTIVE AND SHALL BE EFFECTIVE AS A FINANCING STATEMENT FILED AS A FIXTURE FILING WITH RESPECT TO ALL GOODS WHICH ARE OR ARE TO BECOME FIXTURES INCLUDED WITHIN THE PROPERTY AND IS TO BE FILED FOR RECORD OR REGISTERED IN THE REAL ESTATE RECORDS OF THE COUNTY IN WHICH THE PREMISES IS LOCATED. THE ADDRESS OF LENDER [SECURED PARTY] AND THE MAILING ADDRESS OF BORROWER [DEBTOR] ARE SET FORTH WITHIN. A PHOTOGRAPHIC OR OTHER REPRODUCTION OF THIS INSTRUMENT OR ANY FINANCING STATEMENT RELATING TO THIS INSTRUMENT SHALL BE SUFFICIENT AS A FINANCING STATEMENT.

(d) MAXIMUM AMOUNT SECURED. Grantor and Lender intend that this Security Instrument shall secure not only sums advanced as of the date hereof but also all

advances provided for in the Loan Documents; provided however that the maximum amount secured by this Security Instrument shall in no event exceed two (2) times the Loan Amount.

(e) BUSINESS LOAN. Grantor represents and agrees that the obligations secured hereby constitute a business loan within the purview of such paragraph 1(c) of Section 4 of the Illinois Interest Act, 815 ILCS 205/1 et seq., as amended, transacted solely for the purpose of carrying on or acquiring the business of Grantor, and also constitutes a loan secured by a mortgage which comes within the purview of subparagraph 1(l) of said Section.

(f) MATURITY DATE. The maturity date of the Loan is the Payment Date occurring in , subject to any extensions provided in the Note.

(g) MORTGAGEE-IN-POSSESSION. In addition to any provision of this Security Instrument authorizing Lender to take or be placed in possession of the Premises, or for the appointment of a receiver, Lender shall have the right, in accordance with Sections 5/15-1701 and 5/15-1702 of the IMFL, to be placed in possession of the Premises or at its request to have a received appointed, and such receiver, or Lender, if and when placed in possession, shall have, in addition to any other powers provided in this Security Instrument, all powers, immunities and duties as provided for in Sections 2/15-1701 and 5/15-1702 of the IMFL.

(h) INSURANCE. Notwithstanding the provisions of Article III hereof, if Grantor fails to provide Lender evidence of the insurance coverages required pursuant to the provisions of this Security Instrument, Lender may purchase such insurance at Grantor's expense to cover Lender's interest in the Premises. The insurance may, but need not, protect Grantor's interest. The coverages that Lender purchases may not pay any claim that Grantor makes or any claim that is made against Grantor in connection with the Premises. Grantor may later cancel any insurance purchased by Lender but only after providing Lender with evidence that Grantor has obtained such insurance as required pursuant to Article III of this Security Instrument. If Lender purchased insurance for the Premises, Grantor will be responsible for the costs of such insurance, including, without limitation, interest and any other charges which Lender may impose in connection with the placement of the insurance, until the effective date of the cancellation and the expiration of the insurance. The cost of the insurance may be added to the Debt. The cost of the insurance may be more than the cost of the insurance Grantor may be able to obtain on its own.

Section 18.37. Certain Matters Relating to Property Located in the State of Indiana. With respect to the Property which is located in the State of Indiana, notwithstanding anything contained herein to the contrary:

(a) The following terms and references (for purposes of this Section only) shall mean the following:

(i) "Applicable Law" means statutory and case law in the State, including, but not by way of limitation, *Mortgages*, Ind. Code 32-29, *Mortgage Foreclosure Actions*, Ind. Code 32-30-10, *Receiverships*, Ind. Code 32-30-5, and the *Uniform Commercial Code - Secured Transactions*, Ind. Code 26-1-9.1 (the "UCC"), as amended,

modified and/or recodified from time to time; provided, however, if by reason of mandatory provisions of law, the perfection, the effect of perfection or nonperfection, and the priority of a security interests in any Collateral are governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State, "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to perfection, effect of perfection or non-perfection, and the priority of the security interests in any such Collateral.

(ii) "County" means the County in the State in which the Property is located.

(iii) "County Recorder" means the Recorder of the County.

(iv) "State" means the state in which the Property is located.

(b) Where any provision of this Security Instrument is inconsistent with any provision of Applicable Law regulating the creation or enforcement of a security interest in real or personal property, the provisions of Applicable Law shall take precedence over the provisions of this Security Instrument, but shall not invalidate or render unenforceable any other provisions of this Security Instrument that can be construed in a manner consistent with Applicable Law.

(c) Notwithstanding any provision in this Security Instrument relating to a power of sale or other provision for sale of the Property upon default other than under a judicial proceeding, any sale of the Property pursuant to this Security Instrument will be made through a judicial proceeding.

(d) Notwithstanding any provision in this Security Instrument purporting to irrevocably grant a security interest in the Property, upon the payment and satisfaction of this Security Instrument and upon the request of Grantor, Lender will file a release of this Security Instrument or other certification that this Security Instrument has been satisfied in the office of the recorder in the County.

(e) In addition to any other obligation secured by this Security Instrument, this Security Instrument also secures:

future obligations and advances up to the maximum amount of two (2) times the Loan Amount (whether made as an obligation, made at the option of Lender, made after a reduction to a zero (0) or other balance, or made otherwise) to the same extent as if the future obligations and advances were made on the date of execution of this Security Instrument; and

future modifications, extensions, and renewals of any indebtedness or obligations secured by this Security Instrument.

(f) To the extent the Applicable Law limits (i) the availability of the exercise of any of the remedies set forth herein, including without limitation the remedies involving the right of

Lender to exercise self-help in connection with the enforcement of the terms of this Security Instrument, or (ii) the enforcement of waivers and indemnities made by Grantor, such remedies, waivers, or indemnities shall be exercisable or enforceable, any provisions in this Security Instrument to the contrary notwithstanding, if, and to the extent, permitted by the laws in force at the time of the exercise of such remedies or the enforcement of such waivers or indemnities at the time of the execution and delivery of this Security Instrument. Anything contained in this Security Instrument to the contrary, Lender shall enforce the terms and provisions of this Security Instrument subject to and in accordance with all applicable Legal Requirements and Applicable Law.

(g) Anything contained herein or in Ind. Code 32-29-7-5 to the contrary notwithstanding, no waiver made by Grantor in this Security Instrument, or in any of the other terms and provisions of the Loan Documents, shall constitute the consideration for or be deemed to be a waiver or release by Lender of the right to seek a deficiency judgment against Grantor or any other Person or entity who may be personally liable for the Debt, which right to seek a deficiency judgment is hereby reserved, preserved and retained by Lender for its own behalf and its successors and assigns.

(h) Part of the Property and Collateral is or may become fixtures. It is intended that as to the fixtures, as such term is defined in Ind. Code 26-1-9.1-102(41), that are part of the Property, this Security Instrument shall be effective as a continuously perfected financing statement filed pursuant to Ind. Code 26-1-9.1-515 as a fixture filing from the date of the filing of this Security Instrument for record with the County Recorder. In order to satisfy Ind. Code 26-1-9.1-502(a) and Ind. Code 26-1-9.1-502(b), the following information is hereby provided:

Name of Debtor:	Grantor is the “Debtor”
Address of Debtor:	See Section 11.01 of this Security Instrument
Type of Organization:	As set forth on the signature page hereof
State of Organization:	Delaware
Organization Number:	As set forth on the signature page hereof
Name of Secured Party:	Lender is the “Secured Party”
Address of Secured Party:	See Section 11.01 of this Security Instrument
Record Owner of Property:	Grantor

(i) Grantor hereby acknowledges receipt of a copy of this Security Instrument in compliance with Lender’s obligation to deliver a copy of the fixture filing to Grantor pursuant to Section 9.1-502(f) of the UCC.

(j) The final maturity date of the obligations secured hereby (including all extensions permitted pursuant to the terms of the Loan Documents) is the Payment Date occurring in , 201 .

(k) The Property (i) does not contain any facility or facilities that are subject to reporting (by either Grantor or any tenant or lessee thereon or other person or entity in possession or occupancy of any portion thereof) under Section 312 of the federal Emergency Planning and Community Right-to-Know Act of 1986 (42 U.S.C. §11022); (ii) is not the site of any underground storage tanks; and (iii) is not listed on the Comprehensive Environmental Response, Compensation and Liability Information System (CERCLIS) in accordance with Section 116 of CERCLA (42 U.S.C. §9616). By reason of the foregoing, the conveyance made by Grantor to Lender by this Security Instrument is not subject to the disclosure or other provisions of the Indiana Responsible Property transfer Law, Ind. Code 13-25-3.

(l) If Lender exercises its rights under Section 13.02 (a)(viii) hereof and brings an action to recover judgment under the Note or any guaranty and during the pendancy of such action brings a separate action under this Security Instrument, such actions shall be consolidated.

(m) The definition of Property shall include all refunds and rebates with respect to any tax or utility payments, regardless of the time period to which they relate.

(n) All attorneys fees and expenses incurred by Grantor in connection with the enforcement of any of the terms of this Security Instrument shall include, without limitation, support staff costs and amounts expended in connection with litigation preparation and computerized research, telephone and telefax expenses, mileage, depositions, postage, photocopies, process service, videotapes, environmental testing and audits, environmental reviews and inspections and environmental clean-up and remediation.

(o) Without limiting the scope of the assignment of Rents contained in this Security Instrument, the assignment of Rents set forth herein shall constitute an assignment of rents as set forth in Ind. Code 32-21-4-2 and thereby creates, and Grantor hereby grants to Lender, a security interest in the Rents that will be perfected upon the recording of this Security Instrument.

(p) Subject to the terms and provisions of this Security Instrument, Grantor hereby irrevocably consents to the appointment of a receiver permitted under Applicable Law, which receiver, when duly appointed, shall have all of the powers and duties of receivers pursuant to Applicable Law.

(q) The term “Debt” as defined in this Security Instrument shall include, without limitation, any judgment(s) or final decree(s) rendered to collect any money obligations of Grantor to Lender and/or to enforce the performance or collection of all covenants, agreements, other obligations and liabilities of the Grantor under this Security Instrument or any or all of the Loan Documents; provided, however, such Debt shall not include any judgment(s) or final decree(s) rendered in another jurisdiction, which judgment(s) or final decree(s) would be unenforceable by an Indiana Court pursuant to Ind. Code 34-54-3-4. The obtaining of any judgment by Lender (other than a judgment foreclosing this Security Instrument) and any levy of

any execution under any such judgment upon the Property shall not affect in any manner or to any extent the lien of this Security Instrument upon the Property or any part thereof, or any liens, powers, rights and remedies of Lender, but such liens, powers, rights and remedies shall continue unimpaired as before until the judgment or levy is satisfied.

(r) Notwithstanding anything contained herein or the other Loan Documents to the contrary, the provisions in this Security Instrument regarding creation, validity, perfection, priority and enforceability of the lien and security interests created hereby, all warranties of title contained herein with respect to the Property and all provisions hereof relating to the realization of the security covered hereby with respect to the Property shall be governed by Applicable Law.

Section 18.38. Certain Matters Relating to Property Located in the State of Kentucky. With respect to the Property which is located in the Commonwealth of Kentucky, notwithstanding anything contained herein to the contrary:

(a) The first paragraph of page 1 shall be amended to include " County" in the address of the Lender. KRS 382.430.

(b) The Note has a maturity date of the Payment Date occurring in , 201 .

(c) The signature of the person who prepared the instrument is set forth on the cover page hereof, and such is deemed to be included as part of the preparer's reference on the cover page hereof. KRS 382.335.

(d) With reference to KRS 382.520, it is acknowledged and agreed that this Security Instrument secures not only the initial advances under the Note but also all future advances and all other additional indebtedness, whether direct, indirect, future, contingent or otherwise, connected with or arising out of the Note and the Loan Documents, to the extent of not more than two (2) times the Loan Amount. It shall be a default under this Security Instrument if Grantor requests a release, in the manner provided by KRS 382.250, of any portion of the lien securing any of the additional indebtedness secured by this Security Instrument prior to the date that all of the obligations have been paid and the Loan Documents have been terminated, and Grantor hereby waives any and all right to request such a release to the maximum extent permitted by law.

(e) This Security Instrument is given to secure a loan or loans made, in whole or in part, for the purpose of erecting, improving and adding to a building or other improvements on the Premises.

(f) FOR PURPOSES OF THE UNIFORM COMMERCIAL CODE THE FOLLOWING INFORMATION IS FURNISHED:

(i) The name and address of the record owner of the real estate described in this instrument is:

the party set forth as Grantor on the signature page hereto c/o RLJ Urban Lodging Funds, 6903 Rockledge Drive, Suite 910, Bethesda, Maryland 20817

(ii) the name and address of the Debtor (Grantor) is:

the party set forth as Grantor on the signature page hereto c/o RLJ Urban Lodging Funds, 6903 Rockledge Drive, Suite 910, Bethesda, Maryland 20817

(iii) the name and address of the Secured Party (Lender) is:

Wachovia Bank, National Association, Commercial Real Estate Services, 8739 Research Drive URP 4, NC 1075, Charlotte, North Carolina 28262

(iv) Information concerning the security interest evidenced by this instrument may be obtained from the Secured Party at its address above.

(v) This document covers goods which are or are to become fixtures.

Section 18.39. Certain Matters Relating to Property Located in the State of Michigan. With respect to the Property which is located in the State of Michigan, notwithstanding anything contained herein to the contrary:

(a) Lender shall have all the rights, benefits and privileges set forth in this Security Instrument subject to the provisions of MCLA 554.231, MCLA 554.211 et seq. and MCLA 565.81 et seq. It is the intention of the parties that the provisions of this Security Instrument, and all of the rights and powers granted or reserved to Lender hereunder, shall be construed and enforced to the broadest extent permissible under applicable Michigan law governing assignments of leases and rents including, without limitation, MCLA 554.231 et seq. Any provision contained herein which would, as drafted, violate any provision of, or be in any respect unenforceable under, Michigan law shall be automatically deemed to be modified to the extent necessary, consistent with its purpose, to render such provision enforceable under Michigan law.

(b) THIS SECURITY INSTRUMENT IS A "FUTURE ADVANCE MORTGAGE" PURSUANT TO M.C.L.A. 565.901. ALL FUTURE ADVANCES UNDER THIS SECURITY INSTRUMENT OR UNDER ANY OF THE LOAN DOCUMENTS SHALL HAVE THE SAME PRIORITY AS IF THE FUTURE ADVANCE WAS MADE ON THE DATE THAT THIS SECURITY INSTRUMENT WAS RECORDED. THIS SECURITY INSTRUMENT SHALL SECURE ALL INDEBTEDNESS OF BORROWER, ITS SUCCESSORS AND ASSIGNS, UNDER THIS SECURITY INSTRUMENT, WHENEVER AND HOWEVER INCURRED. NOTICE IS HEREBY GIVEN THAT THE INDEBTEDNESS SECURED HEREBY MAY INCREASE AS A RESULT OF ANY DEFAULTS HEREUNDER BY

BORROWER DUE TO, FOR EXAMPLE AND WITHOUT LIMITATION, UNPAID INTEREST OR LATE CHARGES, UNPAID TAXES OR UNPAID INSURANCE PREMIUMS WHICH LENDER ELECTS TO ADVANCE PURSUANT TO THE TERMS OF THIS SECURITY INSTRUMENT, DEFAULTS UNDER LEASES THAT LENDER ELECTS TO CURE, ATTORNEYS' FEES OR COSTS INCURRED IN ENFORCING THE LOAN DOCUMENTS OR OTHER EXPENSES INCURRED BY LENDER IN PROTECTING THE PREMISES, THE SECURITY OF THIS SECURITY INSTRUMENT OR LENDER'S RIGHTS AND INTERESTS.

(c) Upon a default by Grantor, Lender, at Lender's option, may declare all of the sums secured by this Security Instrument to be immediately due and payable without further demand. Lender is hereby authorized and empowered to foreclose this Security Instrument and to sell the Property at public auction or venue pursuant to m.c.l.a. 600.3201 et seq. or judicially foreclose this Security Instrument under the provisions of m.c.l.a. 600.3101 et seq. Grantor acknowledges that the power of sale herein granted may be exercised by Lender without prior judicial hearing. Lender shall be entitled to collect all costs and expenses incurred in pursuing such remedies, including without limitation attorneys' fees and costs.

(d) This Security Instrument contains a power of sale which permits Lender to cause the Property to be sold by advertisement rather than pursuant to court action. In a foreclosure by advertisement, there is no hearing involved and the only notice required is to publish notice in a local newspaper and to post a copy of the notice on the property. Grantor hereby voluntarily and knowingly waives any right Lender may have by virtue of any applicable constitutional provision or statute to any notice or court hearing prior to the exercise of the power of sale, except as may be expressly required by the Michigan statute governing foreclosures by advertisement. By execution of the Mortgage, Grantor represents and acknowledges that the meaning and the consequences of the foregoing have been discussed as fully as desired by Grantor with Grantor's legal counsel.

(e) As additional security for the Debt and performance of the covenants and agreements herein and in any other agreement contained, pursuant to Michigan Compiled Laws 554.231 *et seq*., as amended, Grantor hereby assigns and conveys to Lender and grants Lender security interests in any and all leases, written or unwritten, of the Property or any part thereof, heretofore, now or hereafter entered into and demising any part of the Property, and all rents, issues, income and profits derived from the use of the Property or any portion thereof, whether due or to become due.

(f) Grantor's failure, refusal or neglect to pay any taxes levied against the Property or any insurance premiums due upon policies of insurance covering the Property, shall constitute waste under Michigan Compiled Laws 600.2927, and Lender shall have a right to appointment of a receiver of the Property and of the earnings, income and profits thereof, with such powers as the Court making such appointment confers, and Grantor hereby irrevocably consents to such appointment in such event, and agrees to pay Lender's costs and expenses incurred in such proceeding, including reasonably attorneys fees. Payment by Lender for and on behalf of Grantor of any delinquent taxes, assessments, or insurance premiums payable by Grantor under

the terms of this Security Instrument shall not cure the default herein described, nor shall it in any manner impair Lender's right to the appointment of a receiver as set forth herein.

(g) Grantors failure to pay taxes and/or assessments assessed against the Property, or any installment thereof, or any insurance premium upon policies covering the Property or any part thereof, shall constitute waste (although the meaning of the term "waste" shall not necessarily be limited to such nonpayment), as provided by Act No. 236 of the Public Acts of Michigan

of 1961, as amended, and shall entitle Lender to all remedies provided for in such statute. If Lender elects to seek a receiver under such statute, Grantor further agrees and consents to the appointment of a receiver under such statute.

(h) Grantor understands that, upon the occurrence of an Event of Default, Lender hereby is authorized and empowered to sell the Property or to cause the same to be sold and to convey the same to the purchaser in any lawful manner, including but not limited to that provided by Chapter 32 of the Revised Judicature Act of Michigan, entitled "Foreclosure of Mortgage by Advertisement", which permits Lender to sell the Property without affording Grantor a hearing or giving Grantor actual personal notice. The only notice required under such Chapter 32 is to publish notice in a local newspaper and to post a copy of the notice on the Property.

(i) In connection with Lender's right to possession of the Property upon the occurrence of an Event of Default, Grantor acknowledges that it has been advised that there is a significant body of case law in Michigan that purports to provide that, in the absence of a showing of waste of a character sufficient to endanger the value of the mortgaged property, or other special factors, a mortgagor is entitled to remain in possession of mortgaged property, and to enjoy the income, rents and profits from the mortgaged property, during the pendency of foreclosure proceedings and until the expiration of the redemption period, even if the mortgage documents expressly provide to the contrary. Grantor further acknowledges that it has been advised that Lender recognizes the value of the security covered by this Security Instrument is inextricably intertwined with the effectiveness of the management, maintenance and general operation of the Property, and that Lender would not make the loan secured by this Security Instrument unless it could be assured that it would have the right to take possession of the Property in order to manage or to control management of the Property, and to enjoy the income, rents and profits from the Property, immediately upon the occurrence of an Event of Default, notwithstanding that foreclosure proceedings may not have been instituted, or are pending, or the redemption period may not have expired. Accordingly, Grantor hereby knowingly, intelligently and voluntarily waives all right to possession of the Property from and after the occurrence of an Event of Default, upon demand for possession by Lender, and Grantor agrees not to assert any objection or defense to Lender's request or petition to a court for possession. The rights hereby conferred upon Lender have been agreed upon prior to any Event of Default, and the exercise by Lender of any such rights shall not be deemed to put Lender in the status of a "mortgagee in possession."

(j) For purposes of Article Nine of the Michigan Uniform Commercial Code, (a) Grantor is the "debtor" and is a limited liability company organized under the laws of the state of

Michigan, (b) the organization number assigned debtor by the state in which debtor is organized is B5179U, (c) Lender is the "secured party", (d) information concerning the security interest created hereby may be obtained from Lender at its address set forth on page 1 of this Security Instrument, (e) Grantor's mailing address is set forth on page 1 hereof; and (f) this financing statement is to be recorded in the real property records for the county in which the Property is located.

* * * * *

IN WITNESS WHEREOF, Grantor has duly executed this Security Instrument the day and year first above written.

Grantor's Organizational Identification Number:
[State "None" if applicable]

_____, Grantor

By: _____,

its general partner

By: _____
Name:
Title:

Agreed to and Consented to by:

_____, Operating Tenant

By: _____
Name:
Title:

EXHIBIT A

Legal Description of Premises

EXHIBIT B

Summary of Reserves

See Cross-collateralization Agreement between Grantor and Lender of even date herewith.

EXHIBIT C

Initial Allocated Loan Amounts

See Cross-collateralization Agreement between Grantor and Lender of even date herewith.

EXHIBIT D

Required Engineering Work

See Cross-collateralization Agreement between Grantor and Lender of even date herewith.

EXHIBIT E

Form of Direction Letter

[Letterhead of Landlord]

[Name and Address of tenant]

Re: [Address of Premises]

Dear tenant:

You are hereby directed to make all future payments of rent and other sums due to Landlord under the Lease payable as follows:

Payable To: [as currently being paid]

Address: _____

_____

_____

Please take particular care in making the check payable only to the above-mentioned names because only checks made payable to the referenced names will be credited against sums due by you to landlord. Until otherwise advised in writing by Landlord and the above-mentioned bank (or its successor), you should continue to make your payments for rent and other sums as directed by the terms of this letter.

Thank you in advance for your cooperation with this change in payment procedures.

By: _____

_____

EXHIBIT F

Property: _____

Location: _____

Cash Flow Statement for Month of: _____ Year:

	Current Month	Year to Date
REVENUE		
Net Rental Revenue		
Other Revenue		
Effective Gross Income		
OPERATING EXPENSES		
Common Area Maintenance		
Payroll		
Administration		
Leasing		
Service		
Clean & Decorate		
Utilities		
Repairs & Maintenance		
Taxes		
Insurance		
Management Fees		
Other		
Total Operating Expenses		
Net Operating Income		
RECURRING EXPENSES		
To Include Expenses for: Carpet Replacement, Appliance Replacement, HVAC/Water Heater Replacement; Miniblinds/Drapes/Ceiling Fans:		
NON-RECURRING EXPENSES		
To Include Capital Expenses for: Playground, Major Signage, Lawns/Trees/Shrubs, Paving/Parking, Roof Replacement, Carpentry/Siding/Balconies, Exterior Paint, Major Concrete/Sidewalks, Foundations, Major Exterior, Boiler Replacement, Major HVAC Replacement, Plumbing Replace, Electrical Replace, Other Major, Fire & Storm, Ins. Loss Recovery:		
Net Cash Flow		

Certified By: _____

Name: _____

Title: _____

Management Company: _____

EXHIBIT G

CREDIT CARD PAYMENT DIRECTION LETTER

[Date]

Re: (the "Company")

Gentlemen:

(the "Processor") has entered into arrangements pursuant to which Processor acts as credit card processing service provider with respect to certain credit card and debit card sales by Company and makes payments to Company in respect of such sales as set forth in the [Merchant Services Bankcard Agreement], dated between Processor and Company (and together with any replacement agreement thereto, referred to herein as the "Card Processing Agreement").

Please be advised that Company has entered or is about to enter into financing arrangements with (the "Lender") pursuant to which Lender may from time to time make loans and advances and provide other financial accommodations to Company, secured by, among other things, all of Company's right, title and interest in and to all deposit and other bank accounts and proceeds of the foregoing, including all amounts at any time payable by Processor to Company pursuant to the Card Processing Agreement or otherwise.

Notwithstanding anything to the contrary contained in the Card Processing Agreement or any prior instructions to Processor, unless and until Processor receives written instructions from Lender to the contrary, effective as of the day after the date of Processor's written acknowledgement below all amounts payable by Processor to Company pursuant to the Card Processing Agreement or otherwise shall be sent by federal funds wire transfer or electronic depository transfer to the following bank account of Lender:

(the "Bank")
ABA Number:
For the Account of:
its successors and assigns
Account Number:
Attn: , Fax:

In the event Processor at any time receives any other instructions from Lender with respect to the disposition of amounts payable by or through Processor to Company pursuant to the Card Processing Agreement or otherwise, Processor is hereby irrevocably authorized and directed to follow such instructions, without inquiry as to Lender's right or authority to give such instructions. Company and Lender acknowledge that (a) any instructions from Lender to Processor to change the account to which funds must be sent by a vice president or other officer of Lender to ; (b) such instructions shall only provide for funds to be sent to a single deposit account of Lender, in a manner with respect to the nature of the funds transfer and at times consistent with the payment practices of Processor as then in effect, unless otherwise agreed by Processor. The Company agrees to hold harmless Processor for any action taken by Processor in accordance with the terms of this letter and the Card Processing Agreement; and Lender shall complete such account change forms as Processor may require. The Company hereby acknowledges that the account set forth above is owned by Company but is under the control of Lender.

Lender and Company hereby confirm and agree as follows: (i) the Card Processing Agreement is in full force and effect and (ii) this Payment Direction Letter does not prohibit or limit any rights Processor possesses under the Card Processing Agreement, including but not limited to Processor's right to debit, offset or charge back any amount owing to Processor under the Card Processing Agreement or any replacement or renewal thereof, against funds sent to or to be sent to the above referenced bank account.

This Payment Direction Letter cannot be changed, modified, or terminated, except by written agreement signed by Lender, Company and Processor. Processor agrees to use reasonable efforts to ensure payment instructions are followed, but Lender and Company herein acknowledge that Processor shall incur no liability for changes or modifications wherein Processor has received instructions from Company or Lender to change deposit instructions. The terms of this Payment Direction Letter shall be governed by the laws of the State of New York.

Please acknowledge your receipt of, and agreement to, the foregoing by signing in the space provided below.

Very truly yours,

(the "Company")

By: _____
Name:
Title:

Date: _____

PROMISSORY NOTE

Maturity Date: The Payment Date in July, 2016.

THIS PROMISSORY NOTE (this "Note"), is made as of June 14, 2006 by the undersigned, as borrower ("Borrower"), in favor of WACHOVIA BANK, NATIONAL ASSOCIATION and its successors or assigns, as lender ("Lender").

R E C I T A L S:

A. This Note evidences a portion of the loan (the "Loan") made by Lender to Borrower in the original principal amount of AND NO/100 DOLLARS ($ .00) (the "Loan Amount") and secured by, inter alia, a certain mortgage or deed of trust and deed to secure debt (as same may hereafter be amended, modified or supplemented, collectively, the "Security Instrument") from Borrower and certain Affiliates of Borrower, as grantor, in favor of and for the benefit of Lender, as lender, as security for the Loan and the other Loan Documents;

B. Borrower and Lender intend these Recitals to be a material part of this Note.

NOW, THEREFORE, FOR VALUE RECEIVED, Borrower does hereby covenant and promise to pay to the order of Lender, without any counterclaim, setoff or deduction whatsoever, on the Maturity Date (as hereinafter defined), in immediately available funds, at Commercial Real Estate Services, 8739 Research Drive URP 4, NC 1075, Charlotte, North Carolina 28262 or at such other place as Lender may designate to Borrower in writing from time to time, in legal tender of the United States of America, the Loan Amount and all other amounts due or becoming due hereunder, to the extent not previously paid in accordance herewith, together with all interest accrued thereon through the date the Loan is repaid in full, at the rate of % per annum (the "Interest Rate") to be computed on the basis of the actual number of days elapsed in a 360 day year, on so much of the Loan Amount as is from time to time outstanding on the first day of the applicable Interest Accrual Period (as hereinafter defined).

SECTION 1. DEFINITIONS

Defined terms in this Note shall include in the singular number the plural and in the plural number the singular. All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Security Instrument.

SECTION 2. PAYMENTS AND LOAN TERMS

Section 2.1. Interest and Amortization Payments.

(a) If the advance of the Loan Amount evidenced by this Note is made on a date other than a Payment Date, Borrower shall pay to Lender contemporaneously with the execution hereof interest at the Interest Rate for a period from the date hereof through and including the end of the calendar month in which the Loan Amount is advanced. Commencing on the Payment Date occurring in August 2006 and on each Payment Date thereafter through and including the Payment Date occurring in January 2010, Borrower shall pay to Lender an amount equal to all accrued and unpaid interest on this Note. Commencing on the Payment Date occurring in February, 2010 ("Amortization Commencement Date"), and on each Payment Date thereafter until this Note is paid in full on the Maturity Date or otherwise, an amount equal to the Monthly Debt Service Payment in the amount of $ shall be due and payable, which amount represents principal installments ("Principal Payments"), together with interest, irrespective of whether or not any voluntary or involuntary prepayments of principal have been made. The entire outstanding principal balance, to the extent not theretofore paid, together with all accrued but unpaid interest thereon and any other amounts due hereunder shall be due and payable on the Payment Date in July, 2016 (the "Maturity Date"). All payments due hereunder shall be made without any counterclaim, setoff or deduction whatsoever.

(b) To the extent any Interest Shortfall shall occur, except as otherwise provided in Section 3.2 hereof, such Interest Shortfall shall accrue additional interest at the Default Rate.

(c) To the extent Payments (as hereinafter defined) are or become due and payable under this Note or under any of the other Loan Documents on a day (the "Due Date") which is not a Business Day, such Payments are and shall be due and payable on the first Business Day immediately following the Due Date for such Payments. In the event that any Payment is received after 2:00 p.m. Eastern Time on any day, it shall be deemed received and paid on the subsequent Business Day.

Section 2.2. Application of Payments.

(a) Each and every payment (a "Payment") made by Borrower to Lender in accordance with the terms of this Note and/or the terms of any one or more of the other Loan Documents and all other proceeds received by Lender with respect to the Debt, shall be applied as follows:

(1) Payments other than Unscheduled Payments shall be applied (i) first, to all Late Charges, Default Rate Interest or other premiums and other sums payable hereunder or under the other Loan Documents (other than those sums included in clauses (ii) and (iii) of this Section 2.2(a)(1)) in such order and priority as determined by Lender in its sole discretion, (ii) second, to all interest (other than Default Rate Interest) which shall be due and payable with respect to the Loan Amount pursuant to the terms hereof as of the date the Payment is received (including any Interest Shortfalls and interest thereon to the extent permitted by applicable law), (iii) third, on and after the Amortization Commencement Date, taking into account the respective date of such Payments, to the Loan Amount until the Loan

Amount has been amortized in accordance with a thirty (30) year amortization schedule and (iv) fourth, on the Maturity Date, to the Loan Amount until the Loan Amount has been paid in full.

(2) Unscheduled Payments shall be applied at the end of the Interest Accrual Period in which such Unscheduled Payments are received as a principal prepayment of the Loan Amount to amortize the Loan Amount.

(b) To the extent that Borrower makes a Payment or Lender receives any Payment or proceeds for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the obligations of Borrower hereunder intended to be satisfied shall be revived and continue as if such Payment or proceeds had not been received by Lender.

Section 2.3. Prepayments.

The Debt may not be prepaid, in whole or in part, except as set forth in Article XV of the Security Instrument.

SECTION 3. DEFAULTS

Section 3.1. Events of Default.

This Note is secured by, among other things, the Security Instrument which specifies various Events of Default, upon the happening of which all or portions of the sums owing under this Note may be declared immediately due and payable as more specifically provided therein. Each Event of Default under the Security Instrument or any one or more of the other Loan

Documents shall be an Event of Default hereunder.

Section 3.2. Remedies.

If an Event of Default shall occur hereunder or under any other Loan Document, the Principal Amount and, to the extent permitted by applicable law, all accrued but unpaid interest on the Principal Amount shall, commencing on the date of the occurrence of such Event of Default, at the option of Lender, immediately and without notice to Borrower, accrue interest at the Default Rate until such Event of Default is cured or if not cured or such cure is not accepted by Lender, until the repayment of the Debt. The foregoing provision shall not be construed as a waiver by Lender of its right to pursue any other remedies available to it under the Security Instrument, or any other Loan Document, nor shall it be construed to limit in any way the application of the Default Rate.

SECTION 4. EXCULPATION

Section 4.1. Exculpation.

Notwithstanding anything to the contrary contained in this Note or the other Loan Documents, the obligations of Borrower hereunder shall be non-recourse except with respect to the Property, and as otherwise provided in Section 18.32 of the Security Instrument, the terms of which are incorporated herein.

SECTION 5. MISCELLANEOUS

Section 5.1. Further Assurances.

Borrower shall execute and acknowledge (or cause to be executed and acknowledged) and deliver to Lender all documents, and take all actions, required by Lender from time to time to confirm the rights created or intended to be created under this Note and the other Loan Documents, to protect and further the validity, priority and enforceability of this Note and the other Loan Documents, to subject to the Loan Documents any property of Borrower intended by the terms of any one or more of the Loan Documents to be encumbered by the Loan Documents, or to otherwise carry out the purposes of the Loan Documents and the transactions contemplated thereunder; provided, however, that no such further actions, assurances and confirmations shall increase Borrower's obligations under this Note or any other Loan Documents.

Section 5.2. Modification, Waiver in Writing.

No modification, amendment, extension, discharge, termination or waiver (a "Modification") of any provision of this Note, the Security Instrument or any one or more of the other Loan Documents, nor consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in a writing signed by the party against whom enforcement is sought, and then such waiver or consent shall be effective only in the specific instance, and for the purpose, for which given. Except as otherwise expressly provided herein, no notice to, or demand on, Borrower shall entitle Borrower to any other or future notice or demand in the same, similar or other circumstances. Lender does not hereby agree to, nor does Lender hereby commit itself to, enter into any Modification.

Section 5.3. Costs of Collection.

Borrower agrees to pay all costs and expenses of collection incurred by Lender, in addition to principal, interest and late or delinquency charges (including, without limitation, reasonable attorneys' fees and disbursements) and including all costs and expenses incurred in connection with the pursuit by Lender of any of its rights or remedies referred to in Section 3 hereof or its rights or remedies referred to in any of the Loan Documents or the protection of or realization of collateral or in connection with any of Lender's collection efforts, whether or not suit on this Note, on any of the other Loan Documents or any foreclosure proceeding is filed, and all such costs and expenses shall be payable on demand, together with interest at the Default Rate thereon, and also shall be secured by the Security Instrument and all other collateral at any time held by Lender as security for Borrower's obligations to Lender.

Section 5.4. Maximum Amount.

(a) It is the intention of Borrower and Lender to conform strictly to the usury and similar laws relating to interest and the collection of other charges from time to time in force, and all agreements between Borrower and Lender, whether now existing or hereafter arising and whether oral or written, are hereby expressly limited so that in no event whatsoever, whether by acceleration of maturity hereof or otherwise, shall the amount paid or agreed to be paid in the aggregate to Lender as interest or other charges hereunder or under the other Loan Documents or in any other security agreement given to secure the Debt, or in any other document evidencing, securing or pertaining to the Debt, exceed the maximum amount

permissible under applicable usury or such other laws (the "Maximum Amount"). If under any circumstances whatsoever fulfillment of any provision hereof, or any of the other Loan Documents, at the time performance of such provision shall be due, shall involve transcending the Maximum Amount, then ipso facto, the obligation to be fulfilled shall be reduced to the Maximum Amount. For the purposes of calculating the actual amount of interest or other charges paid and/or payable hereunder, in respect of laws pertaining to usury or such other laws, all charges and other sums paid or agreed to be paid hereunder to the holder hereof for the use, forbearance or detention of the Debt, outstanding from time to time shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread from the date of disbursement of the proceeds of this Note until payment in full of all of the Debt, so that the actual rate of interest on account of the Debt is uniform through the term hereof. The terms and provisions of this Section 5.4 shall control and supersede every other provision of all agreements between Borrower or any endorser and Lender.

(b) If under any circumstances Lender shall ever receive an amount which would exceed the Maximum Amount, such amount shall be deemed a payment in reduction of the Loan Amount owing hereunder and any other obligation of Borrower in favor of Lender, and shall be so applied in accordance with Section 2.2 hereof, or if such excessive interest exceeds the unpaid balance of the Loan Amount and any other obligation of Borrower in favor of Lender, the excess shall be deemed to have been a payment made by mistake and shall be refunded to Borrower.

Section 5.5. Waivers.

Borrower hereby expressly and unconditionally waives presentment, demand, protest, notice of protest or notice of any kind, including, without limitation, any notice of intention to accelerate and notice of acceleration, except as expressly provided herein, and in connection with any suit, action or proceeding brought by Lender on this Note, any and every right it may have to (a) a trial by jury, (b) interpose any counterclaim therein (other than a counterclaim which can only be asserted in the suit, action or proceeding brought by Lender on this Note and cannot be maintained in a separate action) and (c) have the same consolidated with any other or separate suit, action or proceeding.

Section 5.6. Governing Law.

This Note and the obligations arising hereunder shall be governed by, and construed in accordance with, the laws of the State of New York applicable to contracts made and performed in such State and any applicable law of the United States of America.

Section 5.7. Headings.

The Section headings in this Note are included herein for convenience of reference only and shall not constitute a part of this Note for any other purpose.

Section 5.8. Assignment.

Lender shall have the right to transfer, sell and assign this Note, the Security Instrument and/or any of the other Loan Documents or any interest therein, and the obligations hereunder, to

any Person. All references to "Lender" hereunder shall be deemed to include the assigns of the Lender.

Section 5.9. Severability.

Wherever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

Section 5.10. Joint and Several.

If Borrower consists of more than one Person or party, the obligations and liabilities of each such Person or party hereunder shall be joint and several.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Note has been duly executed by the Borrower the day and year first written above.

BORROWER:

RLJ II – C HAMMOND, LLC,
a Delaware limited liability company

By: _____
Name: Thomas J. Baltimore, Jr.
Title: President

ALLONGE TO PROMISSORY NOTE

Allonge to Promissory Note, dated as of , 200 , made by , a in favor of WACHOVIA BANK, NATIONAL ASSOCIATION, a national banking association, in the original principal amount of AND NO/100 DOLLARS ($ .00).

ENDORSEMENT

Pay to the order of , without recourse or warranty.

Dated: , 200

WACHOVIA BANK, NATIONAL ASSOCIATION

By: _____
Name:
Title:

Exhibit 10.14

MANAGEMENT AGREEMENT

by and between

WHITE LODGING SERVICES CORPORATION

(as "**MANAGER**")

and

_____

(as "**OWNER**")

Dated as of

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MANAGEMENT AGREEMENT

This Management Agreement ("**Agreement**") is executed as of day of , and effective as of the date identified as the "Effective Date" in Schedule 1 ("**Effective Date**"), by the party identified as the "Owner" in Schedule 1 ("**Owner**"), and the party identified as "Manager" in Schedule 1 attached hereto ("**Manager**").

RECITALS:

A. Owner is the holder of a leasehold interest in the parcel of real property described on **Exhibit A** attached to this Agreement and incorporated herein and as further identified and described in the "Description of the Hotel" in Schedule 1 (the "**Site**") by virtue of that certain TRS Lease Agreement identified in Schedule 1. The Site is improved as indicated in the "Description of the Hotel" in Schedule 1 (the "**Improvements**"). The Site and the Improvements, in addition to certain other rights, improvements, and personal property as more particularly described in the definition of "Hotel" in Section 13.01 hereof, are collectively referred to as the "Hotel".

B. Owner desires to engage Manager to manage and operate the Hotel and Manager desires to accept such engagement upon the terms and conditions set forth in this Agreement.

C. Owner and Manager desire that the Hotel be operated as the type of Hotel identified in the "Franchise Description" in Schedule 1, licensed to Owner by the Franchisor identified in Schedule 1 (the "**Franchisor**") to Owner.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement and other good and valuable consideration, the receipt of which is hereby acknowledged, Owner and Manager agree as follows:

ARTICLE I

MANAGEMENT OF THE HOTEL; OWNER OBLIGATIONS

1.01 Management of the Hotel

Manager shall, and Owner hereby authorizes and engages Manager, as an independent contractor, to, supervise, direct and control the management and operation of the Hotel in accordance with the terms and conditions of this Agreement. During the Term, the Hotel shall be known by the name identified in the "Description of the Hotel" in Schedule 1 as such name may be changed from time to time by Owner in a manner consistent with any approvals or requirements imposed by the terms of the Franchise Agreement.

1.02 Management Responsibilities

A. Subject to the terms of this Agreement, Manager shall manage the Hotel, and, in accordance with the Annual Operating Budget, shall perform each of the following functions (the costs and expenses of which shall be the Deductions) with respect to the Hotel:

1. Recruit, employ, supervise, direct and discharge the employees at the Hotel.

2. Establish prices, rates and charges for services provided in the Hotel, including Guest Room rates.

3. Establish and revise, as necessary, administrative policies and procedures, including policies and procedures for the control of revenue and expenditures, for the purchasing of supplies and services, for the control of credit, and for the scheduling of maintenance, and verify that the foregoing procedures are operating in a sound manner.

4. Make payments on accounts payable and handle collections of accounts receivable.

5. Arrange for and supervise public relations and advertising and prepare marketing plans.

6. Procure all Inventories and replacement of Fixed Asset Supplies.

7. Prepare and deliver interim accountings, annual accountings, the Proposed Annual Operating Budget, Building Estimate, FF&E Estimate, and such other information as is required by this Agreement and be available at reasonable times to discuss the above-listed items as well as the operations at the Hotel generally with Owner.

8. Plan, execute and supervise ordinary and routine repairs, maintenance, and FF&E purchases at the Hotel.

9. Obtain and keep in full force and effect, in Manager's name or, if required by applicable law, in Owner's name, any and all licenses and permits (provided, that if Owner must pursuant to applicable law hold any such licenses or permits, Manager shall use due diligence and reasonable efforts to cooperate with Owner to obtain and keep same in full force and effect). Manager and Owner shall cooperate with efforts to obtain an alcoholic beverage and catering license and Manager shall use all reasonable efforts to comply with the requirements of said alcoholic beverage and catering licenses, to the extent within Manager's control, and consistent with the approved Annual Operating Budget. If the alcoholic beverage and catering licenses are issued to Owner, Owner shall

take all actions necessary to keep the alcoholic beverage and catering licenses in full force and effect and shall take no actions in violation of said licenses.

10. Retain legal counsel approved by Owner for the Hotel for legal services, as necessary, which legal counsel shall perform legal services under the direction of Manager. Such legal services may include, without limitation, the rendering of legal advice or institution of legal actions on Owner's behalf and at Owner's expense, for the prosecution or defense of actions involving the collection or payment of rent, tenant or guest disputes, damage actions, contract disputes and the like.

B. Manager, to the extent sufficient Working Capital and FF&E Reserve funds exist and are available for such purpose, shall comply with all the terms and conditions of the Franchise Agreement and shall advise and assist Owner in the performance and discharge of its covenants and obligations thereunder. Owner shall comply with any capital expenditure, product improvement plan, operating standard changes or other requirements imposed from time to time by the Franchisor under the Franchise Agreement, the cost of which shall be paid in accordance with this Agreement. In the event that there is a conflict with respect to the operation of the Hotel between the terms and conditions of the Franchise Agreement and this Agreement, the terms of the Franchise Agreement shall prevail. Owner specifically agrees that Manager and the Franchisor as "franchisor" under the Franchise Agreement, may deal directly with each other with respect to operational issues pertaining to the Hotel.

C. The operation of the Hotel shall be under the supervision and control of Manager, except as otherwise specifically provided in this Agreement. Manager shall operate the Hotel in accordance with the standards set forth in the Franchise Agreement and this Agreement, and in accordance with the Annual Operating Budget. Subject to the Annual Operating Budget and to such other limitations as are contained in this Agreement, Manager shall have discretion and control, free from interference, interruption or disturbance, in all matters relating to management and operation of the Hotel, including, without limitation, the following: charges for Guest Rooms, commercial space, and services provided by the Hotel; food and beverage services; employment policies; credit policies; receipt, holding and disbursement of funds; maintenance of Manager's bank accounts; procurement of Inventories (including initial Inventories), supplies and services; appearance and maintenance, payment of costs and expenses specifically provided for in this Agreement or otherwise reasonably necessary or desirable for the proper and efficient operation of the Hotel; and generally, all activities necessary or desirable for the operation of the Hotel. Manager shall execute in its name or on behalf of Owner all space leases (including parking leases) and other agreements relating to equipment and services provided in the Hotel, provided that without Owner's prior written approval, Manager shall not enter into any (1) any leases with a term in excess of three (3) years or (2) contract for the provision of services with respect to the Hotel that is for a term of longer than one year, unless the contract is terminable by Owner and Manager at all times thereafter upon not more than 30-days notice (without payment of any fee or penalty).

D. Subject to the Annual Operating Budget, Manager will use reasonable efforts to comply with all applicable Legal Requirements (except for certain Legal Requirements which are Owner's responsibility under Section 1.02, Section 5.03 and Section 11.08 hereof) pertaining to its operation of the Hotel, provided that Manager shall have the right, but not the obligation, with the prior written consent of Owner, which consent shall not be unreasonably withheld, conditioned or delayed to contest or oppose, by appropriate proceedings, any such Legal Requirements. All expenses of any such contest of a Legal Requirement shall be paid from Gross Revenues as Deductions. Owner will comply with all applicable Legal Requirements in connection with Owner's responsibilities under this Agreement and in connection with Owner's actions as Owner of the Hotel. In the event Manager is made aware of a violation of a Legal Requirement of which Manager did not have prior knowledge, Manager, upon becoming aware of such violation, shall take appropriate actions to comply with the Legal Requirement in question, subject to the availability of funds for such purpose in accordance with the Annual Operating Budget. Absent the existence of funds for such purpose, as set forth in the Annual Operating Budget, Owner shall advance funds for such purpose within thirty (30) days after receipt of a request therefor from Manager (or such shorter period of time as may be reasonably required, as set forth in Manager's notice to Owner).

1.03 System Services

A. Manager shall provide to Owner certain computer hardware and software support services ("**System Services**") as may from time to time be necessary or desirable, as reasonably determined by Manager, in connection with the performance by Manager of its duties hereunder.

B. In consideration for the System Services to be provided by Manager which shall initially include the cost of the services and equipment itemized on Schedule 1 attached hereto (which services may be supplemented or altered by Manager in its sole but reasonable discretion), Owner shall pay to Manager a "System Services Fee" per Accounting Period as indicated in Schedule 1 for the System Services, which System Services Fee shall be a Deduction.

1.04 Employees

A. All personnel employed at the Hotel shall, at all times, be the employees of Manager. Except as otherwise provided below, Manager shall have absolute discretion with respect to all personnel employed at the Hotel, including, without limitation, decisions regarding hiring, promoting, transferring, compensating, supervising, terminating, directing and training all employees at the Hotel, and, generally, establishing and maintaining all policies relating to employment. Manager shall be permitted to provide free accommodations and amenities to its employees and representatives visiting the Hotel in connection with its management or operation.

B. Manager shall inform Owner as to the name, background and qualifications of the General Manager of the Hotel and expressly reserves the right to

relocate the General Manager of the Hotel to any other hotel managed by Manager. Notwithstanding the foregoing, if Manager desires to change the General Manager, Manager shall give Owner at least thirty (30) days' prior notice of such change (unless circumstances warrant the change in a shorter period of time) stating the reasons for such change and informing Owner of the name, background and qualifications of any replacement General Manager. Owner shall have the right to interview any proposed replacement General Manager and shall be given the opportunity to meet with the appropriate senior executives of Manager to discuss the advisability of effectuating any such proposed hiring, dismissal or transfer and any possible alternatives thereto, and, if the Hotel contains more than one hundred twenty (120) guest rooms, any replacement General Manager shall be subject to Owner's prior approval. Manager shall consider in good faith the opinions and requests of Owner with respect to such matters, and, if Manager elects not to implement any such request, Manager shall explain its decision to Owner in reasonable detail. Furthermore, in the event that Manager transfers the General Manager for reasons other than unsatisfactory performance within eighteen (18) months of the commencement of their employment at the Hotel, Manager shall be responsible for the unamortized costs and expenses (over such eighteen month period) related to the replacement of such individual.

1.05 Owner's Right to Inspect and Consult

Owner and its agents shall have access to the Hotel at any and all reasonable times for the purpose of inspection, or showing the Hotel to prospective purchasers or Mortgagees. Manager shall cause the hotel's General Manager, Director of Sales, and a representative of Manager to meet with owner at such times as Owner may reasonably request to review and discuss Hotel operations, operating statements, cash flow, budgets, capital expenditures, property management and maintenance, important personnel matters and any other matter related to management or operation of the hotel, provided that Owner may not require more than one such meeting during any calendar quarter. Except to the extent otherwise mutually agreed upon by Owner and Manager, all such meetings shall be held at the Hotel. In addition, Manager shall consult with Owner before implementing any material changes in policies and procedures relating to the Hotel.

1.06 The Franchise Agreement

Owner covenants and agrees not to take any actions in violation of, which would result in the violation of, or which would cause Manager to violate the terms of, the Franchise Agreement. Owner further covenants and agrees that it will not amend the Franchise Agreement without the prior written consent of Manager. Owner shall have the right to terminate the Franchise Agreement and enter into a different Franchise Agreement, from time to time, as it may reasonably determine, subject to the prior written consent of Manager. Any costs, fees or expenses associated with such termination shall be paid by Owner from its own funds and shall not be paid out of Gross Revenues and shall not be Deductions.

1.07 Accounting Services

In consideration for all of the accounting services to be rendered by Manager pursuant to the provisions of this Agreement, Owner shall pay to Manager the Accounting Fee indicated in Schedule 1.

1.08 Travel and Reimbursement

As approved in the Annual Operating Budget, Manager shall be entitled to be reimbursed for reasonable out-of-pocket costs and expenses (including reasonable travel expenses) for the provision of management and support services by personnel not located at the Hotel which are related to the efforts of such personnel on behalf of the Hotel, or the supervision of the management or transition of management for the Hotel, and the same shall be considered Deductions. In addition, if the Hotel has not been managed by Manager prior to the date hereof, Manager shall be reimbursed for its reasonable out of pocket costs in connection with the relocation of management personnel to the Property and for budgeted travel expenses incurred in connection with the initial takeover of management and the entering into of this Agreement. The Manager shall provide to Owner, upon request, back-up information relating to any request for reimbursement.

ARTICLE II

TERM

2.01 Term

The "Term" of this Agreement shall consist of an "Initial Term" and the "Renewal Term(s)". The "Initial Term" shall begin on the Effective Date and, unless sooner terminated as provided herein, shall continue until the Expiration Date of the Initial Term identified in Schedule 1. Thereafter, this Agreement shall automatically, and with no further action required by Owner or Manager, be renewed on the same terms and conditions for the successive renewal term(s) identified in Schedule 1 ("**Renewal Terms**"), unless Manager shall have given prior written notice to Owner of Manager's election not to renew at least one hundred eighty (180) days prior to the expiration of the then current Initial Term or Renewal Term, as the case may be.

2.02 Performance Termination

A. Owner shall have the option to terminate this Agreement (without payment of any Termination Fee or penalty) if, with respect to each Fiscal Year within the Performance Termination Period in question, as defined in Schedule 1:

1. Operating Profit per available guest room at the Hotel is not comparable to that realized by well managed hotels of similar size, services, facilities and

rate structure, as determined by an Expert in accordance with the provisions of Section 11.21 hereof; and

2. The Revenue Index of the Hotel is less than the Revenue Index Threshold as set forth on Schedule 1; and

3. The fact that the Hotel is not meeting the tests set forth in Section 2.02.A.1 and Section 2.02.A.2 is not the result of either (a) Force Majeure, (b) any major renovation of the Hotel, (c) highway renovations in the vicinity of the Hotel, (d) construction projects in the vicinity of the Hotel that materially impact access to the Hotel, or (e) a Default by Owner.

B. Owner shall exercise such option to terminate by serving written notice thereof on Manager no later than sixty (60) days after Owner's receipt of the Accounting Period Statement for the final Accounting Period in the Performance Termination Period. In the event Manager challenges Owner's claim that the conditions set forth in Section 2.02.A triggering Owner's termination right have been met, Manager shall give prompt written notice of such challenge to Owner, and such notice shall trigger the Expert Resolution Process set forth in Section 11.21. Following the conclusion of the Expert Resolution Process, should the Expert establish that the conditions triggering Owner's termination right as set forth in Section 2.02.A have been met, Manager shall pay all costs and expenses of the Expert Resolution Process, and, provided further, that if Manager does not elect to avoid Termination pursuant to the provisions of Section 2.02.C hereof, this Agreement shall terminate on the earliest practical date, but in any event by not later than the end of the third full Accounting Period following the date on which the Expert determines and notifies Owner and Manager in writing that the conditions triggering the termination right as set forth in Section 2.02.A have been met, provided that if Manager has not challenged Owner's claim that the conditions set forth in Section 2.02.A triggering Owner's termination right have been met then such termination date shall be not later than the end of the third full Accounting Period following the date of Owner's exercise of its termination right. Such termination date may be extended as may reasonably be required to enable Manager to satisfy any Legal Requirements applicable to the termination of employment of any employees at the Hotel. Alternatively, if following the conclusion of the Expert Resolution Process, the Expert establishes that the conditions triggering Owner's termination right as set forth in Section 2.02.A have not been met, Owner shall pay all costs and expenses of the Expert Resolution Process.

C. Notwithstanding anything contained herein to the contrary, but subject nonetheless to the provisions of Section 2.02.E, Manager at its option may elect to avoid the Termination by Owner pursuant to Section 2.02.A for the Performance Termination Period in question by notifying Owner of Manager's election within ten (10) days after Manager's receipt of Owner's written notice of Termination or, if Manager disputes the Termination pursuant to Section 2.02.B, within ten (10) days after Manager's receipt of the Expert's decision; provided, however, that to avoid such Termination, Manager shall, at Manager's election, either (i) pay to Owner within such 10 day period that amount of money by which Operating Profit during the Performance Termination Period fell below

the Operating Profit set out in the Annual Operating Budgets for the Performance Termination Period (the "**Deficit Amount**"), or (ii) offset the Deficit Amount against the Management Fees and/or reimbursements or other amounts next coming due and payable to Manager in the Accounting Periods following Manager's written notice to Owner of Manager's election to avoid Termination until the Deficit Amount has been offset in full by such Management Fees, reimbursements or other amounts due Manager. In the event Manager elects to avoid Termination pursuant to this Section 2.02.C, the second Fiscal Year within the Performance Termination Period that gave rise to Owner's termination right shall not be considered as part of any subsequent Performance Termination Period hereunder.

D. Owner's failure to exercise its right to terminate this Agreement pursuant to this Section 2.02 shall not be deemed an estoppel or waiver of Owner's right to terminate this Agreement with respect to any subsequent event or circumstance that could give Owner the right to terminate pursuant to this Section 2.02.

E. Manager's exercise of its right to avoid termination of this Agreement pursuant to this Section 2.02 shall not prevent Manager from again exercising such right to avoid Termination at a later date, should any subsequent event or circumstance arise that gives Owner the right to terminate under this Section 2.02, provided however, that Manager may exercise such right no more than three (3) times during the Term.

ARTICLE III

COMPENSATION OF MANAGER

3.01 Management Fees

Manager shall be paid the sum of the following as its management fees:

A. the Base Management Fee, which shall be retained by Manager from Gross Revenues; plus

B. the Incentive Management Fee, which shall be retained by Manager from Operating Profit in accordance with Sections 3.02 and 4.01 hereof; plus

C. the System Services Fee set forth in Section 1.03 hereof; plus

D. the Accounting Fee set forth in Section 1.07 hereof.

3.02 Operating Profit

Operating Profit, if any, shall be distributed to Owner and to Manager in the order of priority listed below.

A. an amount equal to Owner's Priority shall be paid to Owner,

B. the Incentive Management Fee shall be paid to, or credited to and retained by, Manager, and

C. any remaining balance of Operating Profit shall be paid to Owner.

To the extent of available Operating Profit for each Accounting Period and within the time period set forth in Section 4.0l.A, Manager shall distribute a prorated portion of the Owner's Priority to Owner each Accounting Period and Manager shall be entitled to be paid, or credited and retain a prorated portion of the Incentive Management Fee each Accounting Period based on its good faith estimate of the Incentive Management Fee for the full Fiscal Year.

ARTICLE IV

ACCOUNTING MATTERS

4.01 Accounting, Distributions and Annual Reconciliation

A. Within twenty (20) days after the close of each Accounting Period, Manager shall deliver an interim accounting (the "**Accounting Period Statement**") to Owner showing Gross Revenues, Deductions, Operating Profit, and applications and distributions thereof for the preceding Accounting Period in electronic format (together with hard copies thereof). Manager shall transfer to Owner, with each Accounting Period Statement, any interim amounts due Owner, subject to Working Capital needs, and shall retain any Base Management Fees, System Services Fees, Accounting Fees, Incentive Management Fees and any other interim amounts due Manager. Such interim accounting shall be in the form of statements reasonably approved by Owner.

B. Calculations and payments of the Base Management Fee, the Incentive Management Fee, and distributions of Operating Profit made with respect to each Accounting Period within a Fiscal Year shall be accounted for cumulatively within a Fiscal Year, but shall not be cumulative from one Fiscal Year to the next. Within sixty (60) days after the end of each Fiscal Year, Manager shall deliver to Owner a statement in electronic format (together with hard copies thereof) in reasonable detail summarizing the operations of the Hotel for the immediately preceding Fiscal Year and within ninety (90) days after the end of each Fiscal Year, a certificate of Manager's chief accounting officer certifying that, to the best of his knowledge, such year end statement is true and correct. The parties shall, within thirty (30) business days after Owner's receipt of such statement, make any adjustments, by cash payment, in the amounts paid or retained for such Fiscal Year as are needed because of the final figures set forth in such statement. Such final accounting shall be controlling over the Accounting Period Statements. No adjustment shall be made for any Operating Loss or Operating Profit in a preceding or subsequent Fiscal Year.

C. To the extent there is an Operating Loss for any Accounting Period and the Hotel requires additional funds for the operation of the Hotel as provided in this Agreement, additional funds in the amount of any such Operating Loss shall be provided by Owner within thirty (30) days after Manager has delivered written notice thereof to Owner. If Owner does not so fund such Operating Loss within the thirty (30) day time period, Manager shall have the right (without affecting Manager's other remedies under this Agreement) to withdraw an amount equal to such Operating Loss from future distributions of funds otherwise due to Owner. Furthermore, if Owner fails to fund an Operating Loss upon request by Manager and Manager elects to fund such amount, Manager may also withdraw interest upon such sum at a rate equal to the Prime Rate plus three (3) percentage points accruing from the date Owner was to have funded such Operating Loss until full repayment is made to Manager by Owner or by withdrawal from Owner's distributions. To the extent the Operating Loss suggests to Manager, in the exercise of its opinion, that there will not be sufficient Working Capital to operate the Hotel in accordance with the terms hereof and the Annual Operating Budget, the provisions of Section 4.05 hereof shall apply.

4.02 Books and Records

Manager shall maintain books of control and account pertaining to operations at the Hotel. Such accounts shall be kept on an accrual basis and in all material respects in accordance with the Uniform System of Accounts, with the exceptions provided in this Agreement. Owner and/or Owner's independent accountants may with prior reasonable notice and at reasonable intervals during Manager's normal business hours examine such records. If Owner desires, at its own expense, to audit, examine, or review, or cause its accountants to audit, examine or review, the annual operating statement described in Section 4.01.B or any Accounting Period Statements(s), Owner shall notify Manager in writing within two (2) years after receipt of such statement of its intention to audit and begin such audit no sooner than thirty (30) days and no later than sixty (60) days after Manager's receipt of such notice. Such audit shall be completed within ninety (90) days after commencement thereof. If Owner does not timely elect to conduct an audit, if an audit does not occur or is not completed within the times herein allotted, then such statement shall be deemed to be conclusively accepted by Owner as being correct and Owner shall have no right thereafter to question or examine the same. If any audit by Owner discloses an understatement of any amounts due Owner, Manager shall promptly pay Owner such amounts found to be due, plus interest thereon (at the Prime Rate plus one percent (1%) per annum) from the date such amounts should originally have been paid. Any dispute concerning the correctness of an audit shall be settled through the Expert Resolution Process. If any audit discloses that Manager has not received any amounts due it, Owner shall pay Manager such amounts, but shall have no obligation to pay Manager interest thereon. The cost of the audit shall be paid by Owner, provided, however, Manager shall pay for such cost if the audit by Owner discloses an underpayment of the amount due Owner by three percent (3%) of the total amount due to have been paid Owner.

4.03 Accounts, Expenditures

A. All funds derived from operation of the Hotel and Working Capital shall belong to and be the property of Owner and shall be deposited by Manager in bank accounts (the "**Operating Accounts**") established by Manager for Owner as Owner's agent, in a bank or banks designated by Manager and reasonably approved by Owner, provided, however, that if a Qualified Lender that holds a Qualified Loan designates a one or more specific banks located within reasonable proximity to the Hotel for any of such Operating Accounts, then Manager shall establish Operating Accounts in the bank or banks so designated by such Qualified Lender. Authorized individuals who have signature authority shall be bonded or covered by fidelity insurance in amounts which are customarily obtained for similar hotels. Withdrawals from said Operating Accounts shall be made solely by representatives of Manager whose signatures have been authorized. Reasonable petty cash funds shall be maintained at the Hotel.

B. All payments made by Manager hereunder shall be made from the Operating Accounts, petty cash funds, or from Working Capital. Manager shall not be required to make any advance or payment with respect to the Hotel except out of such funds, and Manager shall not be obligated to incur any liability or obligation with respect to the Hotel. In any event, if any

such liability or obligation is incurred by Manager with respect to the Hotel, Manager shall have the option to deduct such amounts from Owner's share of Operating Profit if Owner has not fully reimbursed Manager for said amounts within ten (10) days after Owner's receipt of notice from Manager that said amounts are due.

C. Debts and liabilities incurred by Manager directly related to its operation and management of the Hotel and otherwise reimbursable to Manager under the terms of this Agreement, whether asserted before or after Termination, will be paid by Owner to the extent funds are not available for that purpose from Gross Revenues and Manager shall have no responsibility for the payment of such liabilities unless adequate Hotel or Owner funds are available to Manager for such payment. Owner shall indemnify, defend and hold Manager harmless from and against all loss, costs, liability, and damage (including, without limitation, attorneys' fees and expenses) arising from Owner's failure to pay such debts and liabilities. The provisions of this Section 4.03.C shall survive Termination.

4.04 Annual Operating Budget

A. Manager shall deliver to Owner for its review and approval, at least thirty (30) days prior to the beginning of each Fiscal Year after the Effective Date, a "Proposed Annual Operating Budget" in the form provided to Owner by Manager. Each Proposed Annual Operating Budget shall project the estimated Gross Revenues, departmental profits, Deductions, and Operating Profit for the forthcoming Fiscal Year for the Hotel. Manager shall provide Owner on request additional detail, information and assumptions used in the preparation of the Proposed Annual Operating Budget. Owner shall consider for its approval, subject to the terms and conditions set forth in this Section 4.04, the Proposed Annual Operating Budget on or before the beginning of each Fiscal Year. For purposes hereof, such Proposed Annual Operating Budget, if approved by Owner, is referred to herein as the "**Annual Operating Budget**."

B. Owner shall notify Manager in writing of any such objections within thirty (30) days of receipt of the Proposed Operating Budget from Manager. If Owner fails to provide any objection within the above time period, the Proposed Operating Budget as submitted by Manager shall be deemed approved. If Owner objects to any portion of the Proposed Annual Operating Budget, Owner shall be specific as to category and any category not specifically disapproved by Owner shall be deemed approved. Owner will provide Manager with the specific reasons for its disapproval with Owner's written objection, and the parties will attempt to resolve, in good faith, any objections within the thirty (30) day period following Owner's objection. Owner shall not have the right to object to any item in the Proposed Annual Operating Budget if such objection would:

1. require modifications to items (such as menu or banquet prices, but not room rates) affecting the estimate of Hotel revenues or the components thereof;

2. require modifications to any expenditures required to be made under the express provisions of this Agreement, including the Management Fee, Incentive Management Fee, Accounting Fee or Special Services Fee, or payments due under or costs incurred to comply with the terms and conditions of the Franchise Agreement;

2. limit any expenditures reasonably necessary to prevent an imminent threat to life, health, safety or property of the Hotel;

3. materially and adversely interfere with Manager's ability to operate the Hotel in a manner consistent and in compliance with the Franchise Agreement or a Legal Requirement;

4. limit the costs and expenses that are not within the control of Owner and/or Manager, such as Taxes and the costs of utilities;

5. materially impair Manager's ability to pass a Performance Termination Test;

6. materially interfere with Manager's fulfillment of its obligations, duties, agreements, covenants or responsibilities under this Agreement; and

7. require modifications to Manager's reasonable projections of increases in projected costs and expenses of operating the Hotel, which increases are primarily caused by projected increases in Gross Revenues.

C. In the event Owner and Manager fail to resolve any of Owner's permitted objections within such thirty (30) day period, all matters shall be referred to the Expert Resolution Process for resolution in accordance with the provisions of Section 11.21 hereof. Pending such Expert determination, Manager shall operate the Hotel with respect to those categories of the Proposed Operating Budget that are in dispute based on the previous Fiscal Year's Annual Operating Budget with respect to such categories, adjusted in accordance with (1) the percentage increase in the CPI from the first day of the Fiscal Year just ended, and the first day of the Fiscal Year for which the Proposed Annual Operating Budget is in dispute and (2) anticipated changes in Gross Revenues to the extent that increases in Gross Revenues would reasonably be expected to impact such category.

D. Owner acknowledges that (i) the Annual Operating Budget is intended by Manager to be an estimate of income and expenditure only; (ii) Manager does not give any guarantee, warranty or representation whatsoever in connection with any Annual Operating Budget, other than that Manager prepared the Annual Operating Budget in good faith and in accordance with the provisions of this Agreement; and (iii) a failure of the Hotel to achieve any Annual Operating Budget shall not in and of itself constitute an Event of Default or breach by Manager hereunder. It is understood, however, that the Annual Operating Budget is an estimate only and that unforeseen circumstances such as, but not limited to, the costs of labor, material, services and supplies, casualty, operation of law, or economic and market conditions, as well as the requirement that the Hotel be operated in accordance with any subsequent changes in the Franchise Agreement, may make adherence to the Annual Operating Budget impracticable. Manager shall include with each Accounting Period Statement a comparison of the actual results with the budgeted results.

4.05 Working Capital

Contemporaneously with Owner's acquisition of title to the Hotel and execution of this Agreement, Owner shall deposit, in an account established by Manager for this purpose, Initial Working Capital in the amount set forth on Schedule 1. If from time to time during the Term, Manager reasonably determines that additional funds are necessary to maintain Working Capital at levels reasonably necessary to assure the uninterrupted and efficient operation of the Hotel, including without limitation, sufficient funds to pay budgeted current liabilities as they fall due and otherwise satisfy the needs of the Hotel as its operation may from time to time require in accordance with the terms of the Annual Operating Budget for that Fiscal Year and actual operations of the Hotel, year to date, Manager shall give written notice of such need (setting out the amount of and the reason for such need) to Owner and Owner shall, promptly, but no later than thirty (30) days after receipt of such notice, fund such requested amounts. If Owner does not so fund additional Working Capital within the said thirty (30) day time period, Manager shall have the right (without affecting Manager's other remedies under this Agreement) to withdraw an amount equal to the funds requested by Manager for additional Working Capital from future distributions of funds otherwise due to Owner. In the event of an emergency involving danger to persons or property or negative cash flow and the inability to fund current operations, within two (2) business days following written certification thereof and request for additional funds by Manager, Owner shall provide such additional Working Capital to the Hotel. Upon Termination, Manager shall, except as otherwise provided in this Agreement, return the outstanding balance of the Working Capital to Owner.

4.06 Fixed Asset Supplies

Owner shall provide, at its sole cost and expense, the initial Fixed Asset Supplies for the Hotel. Owner shall, within thirty (30) days after request by Manager, provide funds that are necessary to increase the level of Fixed Asset Supplies to levels determined by Manager, in its good faith judgment, to be necessary to satisfy the needs of the Hotel as its operation may, from time to time, require in accordance with the terms of the approved Annual Operating Budget for that Fiscal Year. Such fundings by Owner shall not be Deductions. The cost of Fixed Asset Supplies consumed in the operation of the Hotel shall constitute a Deduction. Fixed Asset Supplies shall remain the property of Owner throughout the Term of the Agreement and upon Termination.

ARTICLE V

REPAIRS, MAINTENANCE, AND REPLACEMENTS

5.01 Repairs and Maintenance Costs

In accordance with and subject to the Annual Operating Budget, and subject to the availability of adequate and required Hotel funds, Manager shall maintain the Hotel in good repair and condition and in conformity with applicable Legal Requirements and in accordance with the Franchise Agreement. Manager shall make or cause to be made such routine maintenance, repairs and minor alterations as it determines are necessary for such purposes. The phrase "routine maintenance, repairs, and minor alterations" as used in this Section 5.01 shall include only those which are normally expensed under generally accepted accounting principles. The cost of such routine maintenance, repairs and alterations shall be paid from Gross Revenues (and not from the FF&E Reserve) and shall be treated as a Deduction in determining Operating Profit.

5.02 FF&E Reserve

A. Manager shall establish a reserve account (the "**FF&E Reserve**") in the name of Owner doing business as the Hotel (but on which representatives of Manager are sole signatories) in a bank or similar institution reasonably acceptable to both Manager and Owner to cover the cost of the following items, provided, however, that if a Qualified Lender that holds a Qualified Loan designates a one or more specific banks for any of such reserve account, then Manager shall establish such reserve account in the bank or banks so designated by such Qualified Lender:

1 replacements, renewals and additions to the FF&E at the Hotel; and

2 Special Capital Expenditures.

B. Contemporaneously with Owner's acquisition of title to the Hotel and execution of this Agreement, Owner shall contribute to the FF&E Reserve Owner's initial contribution to fund the FF&E Reserve in the amount set forth on Schedule 1. For each Accounting Period during the term, Manager shall transfer the amounts set forth in Schedule 1 into the FF&E Reserve. Transfers into the FF&E Reserve shall be made at the time of each interim accounting described in Section 4.01 hereof. All amounts transferred into the FF&E Reserve pursuant to this Section 5.02.B shall be paid from Gross Revenues. FF&E Reserve contributions to the extent of the funding obligation set forth in item 16 of Schedule 1 shall be a Deduction.

C. Manager shall prepare an annual estimate (the "**FF&E Estimate**") of the expenditures necessary for (1) replacements, renewals and additions to the FF&E of the Hotel, and (2) Special Capital Expenditures, during the ensuing Fiscal Year and shall deliver the FF&E Estimate to Owner for its review and approval at the same time as

Manager submits the proposed Annual Operating Budget described in Section 4.04. The FF&E Estimate shall also indicate the estimated time schedule for making such replacements, renewals, and additions. Owner's rights to review and approve the FF&E Estimate, as well as the resolution of any disputes related thereto, shall be governed by the terms and conditions of Section 4.04, with the FF&E Estimate being treated in the same manner as the Proposed Annual Operating Budget under Section 4.04.

D. Manager shall from time to time make such (1) replacements, renewals and additions to the FF&E of the Hotel, and (2) Special Capital Expenditures, each in accordance with the FF&E Estimate, or as may be required by the Franchise Agreement, up to the balance in the FF&E Reserve. No expenditures will be made in excess of said balance without the prior written approval of Owner. Manager will follow the applicable approved FF&E Estimate, but shall be entitled to depart therefrom (but not exceeding the lesser of (i) 10% of the applicable approved FF&E Estimate and (ii) the Reserve balance), in its reasonable discretion, provided that (a) such departures from the approved FF&E Estimate result from circumstances which require prompt repair and/or replacement (in which event Manager shall notify Owner); and (b) Manager submits to Owner a revised FF&E Estimate setting forth and explaining such departures. At the end of each Fiscal Year, any amounts then remaining in the Reserve shall be carried forward to the next Fiscal Year. Any Owner interference with the expenditure by Manager of funds from the FF&E Reserve pursuant to this Section 5.02, if such expenditure is in accordance with the terms of this Section 5.02 (including without limitation, interference resulting from (i) any Litigation involving the Owner or the Hotel, or (ii) a Foreclosure) shall constitute an Event of Default by Owner under Section 9.01. Proceeds from the sale of FF&E no longer necessary to the operation of the Hotel shall be added to the FF&E Reserve. The FF&E Reserve will be kept in an interest-bearing account, and any interest which accrues thereon shall be retained in the FF&E Reserve. Neither (1) proceeds from the disposition of FF&E, nor (2) interest which accrues on amounts held in the FF&E Reserve, shall (a) result in any reduction in the required transfers to the FF&E Reserve set forth in subsection B above, nor (b) be included in Gross Revenues.

E. As the Hotel ages, the percentages of Gross Revenues which are set forth in Section 5.02.B may not be sufficient to keep the FF&E Reserve at the levels necessary to make the replacements, renewals, and additions to the FF&E of the Hotel, or to make the Special Capital Expenditures, which are required to maintain the Hotel in accordance with the requirements of this Agreement and the Franchise Agreement. If the FF&E Estimate prepared in good faith by Manager exceeds the available funds in the FF&E Reserve, Owner shall elect one or the other of the following two (2) alternatives:

1. to agree in writing to increase the annual percentage in Section 5.02.B to provide the additional funds required and such increases shall be treated as Owner's Additional Capital Investment and not as a Deduction, or

2. to make a lump sum contribution to the FF&E Reserve in the necessary amount in which event, such contribution shall be treated as an Owner's Additional Capital Investment.

A failure or refusal by Owner to either agree in writing to Section 5.02.E.1 above or provide the additional funds required in accordance with Section 5.02.E.2 above within sixty (60) days after Manager's request therefor shall be deemed an election by Owner to opt for the funding mechanism in Section 5.02.E.1.

5.03 Capital Expenditures

A. Manager shall prepare an annual estimate (the "**Building Estimate**") of the expenses necessary for non-routine or major repairs, alterations, improvements, renewals, replacements, and additions to the Hotel including, without limitation, the structure, the exterior facade and all of the mechanical, electrical, heating, ventilating, air conditioning, plumbing or vertical transportation elements of the Hotel building (the foregoing expenditures, together with all other expenditures which are classified as "capital expenditures" under generally accepted accounting principles, shall be collectively referred to as "**Capital Expenditures**." Manager shall submit the Building Estimate to Owner for its review and approval at the same time the Proposed Annual Operating Budget is submitted. Manager shall not make any Capital Expenditures (except for Special Capital Expenditures which are governed by the provisions of Section 5.02) without the prior consent of Owner, unless otherwise permitted herein. Owner shall have thirty (30) days after receipt to review and approve such Building Estimate, it being agreed that Owner shall not withhold its approval with respect to Capital Expenditures as are required, in Manager's reasonable judgment, to keep the Hotel in a first class, competitive, efficient and economical operating condition and/or in accordance with the requirements of the Franchise Agreement, or otherwise required for the continued safe and orderly operation of the Hotel, including the removal of Hazardous Materials in compliance with all Environmental Laws (as more particularly described in Section 11.08) or in compliance with all Legal Requirements. Owner's right to review and approve the Building Estimate, as well as the resolution of any disputes related thereto, shall be governed by the terms and conditions of this Section 5.03 and Section 4.04, with the Building Estimate being treated in the same manner as the Proposed Annual Operating Budget under Section 4.04.

B. Notwithstanding the provisions of Section 5.03.A, Manager shall be authorized to take appropriate remedial action (including making any necessary Capital Expenditures) without receiving Owner's prior consent in the following circumstances: (i) if there is an emergency threatening the Hotel, its guests, invitees or employees; or (ii) if the continuation of the given condition will subject Manager and/or Owner to civil or criminal liability, and, following written notice from Manager, Owner has failed (x) to authorize Manager to remedy the situation and (y) if appropriate under the circumstances, to take or authorize Manager to take appropriate and immediate legal action to stay the effectiveness of any law, ordinance, regulation or order creating such risk of civil or criminal liability. In any such case, Owner shall hold harmless, indemnify and defend Manager from any claims, actions, suit, liability or loss resulting from Manager's or Owner's remedial action taken pursuant to this Section 5.03.B. Manager shall cooperate with Owner in the pursuit of any such action and shall have the right to participate

therein. The provisions of this Section 5.03.B shall survive Termination of this Agreement.

C. The cost of all Capital Expenditures (except Special Capital Expenditures pursuant to Section 5.02) (including the expenses incurred by either Owner or Manager in connection with any civil or criminal proceeding described above) shall be borne solely by Owner, and shall not be paid from Gross Revenues, nor from the FF&E Reserve, and shall not constitute a Deduction.

D. It shall be an Event of Default by Owner (and Manager shall be entitled to exercise any of the remedies described in Article IX hereof) if Owner fails to provide funding for any Capital Expenditure approved by Owner in such manner as to permit Manager to make timely payment of all costs and expenses in connection with such Capital Expenditures. In addition to any other rights Manager may have under this Agreement, if Owner fails to timely provide the funding, Manager shall have the option of terminating this Agreement upon six (6) months written notice to Owner, whereupon, Owner shall tender to Manager a Termination Fee equal to the termination fee set forth in Section 11.11.G hereof. The provision of this Section shall survive termination of this Agreement.

E. It is understood that any proposed "alterations" and "improvements" which would either (a) increase or decrease the number of Guest Rooms in the Hotel, or (b) involve changing the architectural footprint of the Hotel or involve other significant changes in the structural design of the Hotel, in any case by more than a de minimis amount, or (c) change significantly or eliminate any Hotel amenities are beyond the scope of this Article V, and would require the approval of both parties and an amendment of this Agreement prior to implementation by either party. In the event any alterations or improvements described in the preceding sentence are proposed, Manager shall have no obligation to supervise such renovations, provided, however, that Owner shall be obligated to notify and provide Manager with the opportunity to bid on and be considered to provide such services for a fee to be negotiated by the parties. In addition, in the event Owner desires to use the purchasing and procurement services of Manager for such alterations or improvements, Manager may charge Owner a reasonable fee for such services, which fee will be paid by Owner from its own funds and shall not be a Deduction. The extent to which the costs associated with such alterations and improvements would increase Owner's Priority as an Owner's Additional Capital Investment shall be negotiated by the parties as part of the referenced amendment to this Agreement.

5.04 Ownership of Replacements

All repairs, alterations, improvements, renewals or replacements made pursuant to Article V, and all amounts kept in the FF&E Reserve, shall, except as otherwise provided in this Agreement, be the property of Owner.

ARTICLE VI

INSURANCE, DAMAGE, CONDEMNATION, AND FORCE MAJEURE

6.01 Insurance

In addition to insurance coverages that may be required by the Franchise Agreement and the Mortgage,

A. During the Term of this Agreement, Owner shall, or shall require Manager to, procure and maintain, as an expense of the Hotel, at terms and rates and providing the types of coverage reasonably acceptable to Owner, a minimum of the following insurance:

1. Property insurance, including boiler and machinery coverage, on the Hotel building(s) and contents against loss or damage by fire, lightning and all other risks as commonly covered by an "all risk of physical loss" policy of insurance, in an amount not less than the full replacement cost (less excavation and foundation costs) of the Hotel and contents;;

2. Business interruption insurance covering at least twelve (12) months' loss of profits and necessary continuing expenses for interruptions at the Hotel caused by any occurrence covered by the insurance referred to in Section 6.01.A.1 above;

B. During the Term of this Agreement, Owner, or at Owner's election, Manager shall procure and maintain, with insurance companies of recognized responsibility, in compliance with all Mortgagee and Franchisor requirements, a minimum of the following insurance:

1. (a) Comprehensive or commercial general liability insurance for any claims or losses arising or resulting or pertaining to the Hotel or its operation, with combined single limits of $1,000,000 per each occurrence for bodily injury and property damage. If the general liability coverages contain a general aggregate limit, such limit shall be not less than $2,000,000, and it shall apply in total to the Hotel only. Such insurance shall be on an occurrence policy form and shall include premises and operations, independent contractors, blanket contractual, products and completed operations, advertising injury, employees as additional insureds, broad form property damage, personal injury, incidental medical malpractice, severability of interests, innkeeper's and safe deposit box liability, and explosion, collapse and underground coverage during any construction;

(b) If applicable, alcoholic beverage liability for combined single limits of bodily injury and property damage of not less than $1,000,000 each occurrence;

(c) Business auto liability, including owned, non-owned and hired vehicles for combined single limits of bodily injury and property damage of not less than $1,000,000 per each occurrence; and

(d) Umbrella excess liability on an occurrence basis in amounts not less than $49,000,000 excess of the liability insurance required under Section 6.01 B.1, B.4 and B.5 hereof.

2. Workers' compensation as may be required under applicable laws covering all of Manager's employees at the Hotel and including employer's liability coverage of not less than $1,000,000 each occurrence;

3. Commercial crime insurance including coverage for employee theft, forgery or alteration, and theft of money or securities with reasonable limits as reasonably determined by Owner and Manager;

4. Employment Practices liability insurance, where available, in amounts as Manager and Owner reasonably deem advisable; and

5. Such other insurance in amounts as Manager and Owner in their reasonable judgment deems advisable for protection against claims, liabilities and losses arising out of or connected with the operation of the Hotel or as otherwise may be required under the Franchise Agreement, and/or by any Mortgage.

C. All insurance described in Section 6.01.B may be obtained by Manager, subject to Owner's reasonable approval, by endorsement or equivalent means under its blanket insurance policies, provided that such blanket policies substantially fulfill the requirements specified in this Agreement and the cost thereof is competitive.

D. All policies of insurance required under Sections 6.01.A and 6.01.B (except for the policies required under Section 6.01.B.2) shall be issued in the name of Owner, as the named insured, and shall have Manager, Franchisor and any Mortgagee as additional insureds. The policy of insurance required under Section 6.01.B.2 shall be issued in the name of Manager, with Owner, Franchisor and any Mortgagee as additional insureds. Such coverages shall be provided on a primary and non-contributory basis. Any property losses thereunder shall be payable to the respective parties as their interests may appear. Owner shall use its reasonable efforts to require that any Mortgage encumbering the Hotel shall contain provisions to the effect that proceeds of the insurance policies required to be carried under Sections 6.01.A.1 and 2 shall be available for repair and restoration of the Hotel.

E. Owner and Manager shall deliver to one another certificates of insurance with respect to all policies so procured and, in the case of insurance policies about to expire, shall deliver certificates with respect to the renewal thereof. All certificates of insurance provided for under this Section 6.01 shall, to the extent obtainable, state that

the insurance shall not be canceled or materially changed without at least thirty (30) days prior written notice to the certificate holder.

F. Insurance premiums and any other costs or expenses with respect to the insurance required under Section 6.01, including any Insurance Retention (as defined below), shall be paid from Gross Revenues as Deductions. Such premiums and costs shall be allocated on an equitable basis to the hotels participating under Manager's blanket insurance programs. Any reserves, losses, costs or expenses which are uninsured shall be treated as a cost of insurance and shall be Deductions. Upon Termination, a reserve in an amount reasonably acceptable to Owner and Manager shall be established from Gross Revenues to cover the amount of any Insurance Retention and all other costs which will eventually have to be paid by either Owner or Manager with respect to pending or contingent claims, including those which arise after Termination for causes arising during the Term of the Agreement. If Gross Revenues are insufficient to meet the requirements of such reserve, Owner shall deliver into the reserve established hereunder, within thirty (30) days after receipt of Manager's written request therefor, the sums necessary to establish such reserve; and if Owner fails to timely deliver such sums, Manager shall have the right (without affecting Manager's other remedies under this Agreement) to withdraw the amount of such expenses from the Operating Accounts, the FF&E Reserve, the Working Capital funds or any other funds of Owner held by or under the control of Manager and to deposit such funds into the reserve. For purposes of this Section 6.01.F, "Insurance Retention" shall mean the amount of any loss or reserve under Manager's blanket insurance program which is allocated to the Hotel, not to exceed the higher of (A) the maximum per occurrence limit established for similar hotels participating in such programs, or (B) the insurance policy deductible on any loss which may fall within high hazard classifications as mandated by the insurer (e.g., earthquake, flood, windstorm on coastal properties, etc.). If the Hotel is not a participant under Manager's blanket insurance program, "Insurance Retention" shall mean the amount of any loss or reserve allocated to the Hotel, not to exceed the insurance policy deductible. The provisions of this Section 6.01.F shall survive Termination of this Agreement.

G. Notwithstanding anything contained in this Agreement to the contrary, Owner shall have the right to elect to have Manager procure and maintain any or all of the insurance for the Hotel otherwise required to be maintained by Owner under Section 6.01 by participation in Manager's blanket insurance or self-insurance programs and in lieu of Owner's procuring the same, provided that Owner shall give Manager not less than ninety (90) days written notice of Owner's intent to participate in Manager's blanket insurance or self-insurance programs and such insurance to be procured by Manager shall not become effective until the end of the then-current term of the applicable policy or policies maintained by Owner under Section 6.01. Owner's election as of the Effective Date is as set forth on Schedule 1. Manager shall have no obligation to disclose to Owner the risk history of any other hotels not owned by Owner but which participate in Manager's insurance programs. Owner and Manager acknowledge and agree that Owner may from time to time change any election to maintain or require Manager to maintain the insurance for the Hotel required pursuant to this Agreement by giving Manager at least ninety (90) days notice and otherwise meeting the requirements of this Section

6.01.G., provided, however, that Manager shall not be required to solicit bids for such insurance more frequently than once in each three year period, but Manager shall reasonably cooperate with Owner in its efforts to secure bids for such insurance.

6.02 Damage and Repair

A. If, during the Term, the Hotel is damaged or destroyed by fire, casualty, or other cause, Owner shall, with all reasonable diligence and at its sole cost and expense, repair or replace the damaged or destroyed portion of the Hotel to substantially the same condition as existed previously. Manager shall have the right to discontinue operating the Hotel to the extent it deems necessary to comply with applicable law, ordinance, regulation or order or as necessary for the safe and orderly operation of the Hotel. To the extent that proceeds from the insurance described in Section 6.01 are available for such purpose, Owner shall utilize such proceeds for the restoration.

B. In the event damage or destruction to the Hotel from any cause materially and adversely affects the operation of the Hotel and Owner notifies Manager that Owner will not repair or replace such damage or fails to timely (taking into consideration the time taken to adjust the insurance claim) commence and/or complete the repairing, rebuilding or replacement of the same so that the Hotel shall be substantially the same as it was prior to such damage or destruction, Manager may, at its option, elect to terminate this Agreement upon sixty (60) days' written notice. Additionally, if the Franchise Agreement is terminated due to Owner's failure to repair and restore the Hotel, this Agreement shall terminate, effective upon the termination of the Franchise Agreement. In either such event, upon such Termination under this Section 6.02.B, in addition to any of Manager's other rights hereunder, Owner shall pay Manager a termination fee equal to the Termination Fee set forth in Section 11.11.G. Notwithstanding the foregoing, if the Hotel is materially damaged or destroyed by a casualty and despite compliance with the provisions of Section 6.01, the proceeds of insurance are inadequate to restore the Hotel and Owner elects not to restore the Hotel, at the election of either party, this Agreement shall be terminated and the parties shall comply with the provisions of Section 11.11, and no Termination Fee shall be due to Manager, *provided however*, that in the event Owner commences the reconstruction or restoration of the Hotel within two (2) years after the date of Termination of this Agreement as a result of such casualty, at Manager's election, Owner shall either (i) reinstate Manager as manager of the Hotel under a management agreement which is identical to this Agreement or (ii) pay Manager the Termination Fee provided under this Agreement within thirty (30) days after Manager's demand therefor. The provisions of this Section 6.02 shall survive Termination of this Agreement.

6.03 Condemnation

A. In the event all or substantially all of the Hotel shall be taken in any eminent domain, condemnation, compulsory acquisition, or similar proceeding by any competent authority for any public or quasi-public use or purpose, or in the event a portion of the Hotel shall be so taken, but the result is that it is unreasonable to continue to operate the Hotel in accordance with the standards required by this Agreement, this

Agreement shall terminate and no Termination Fee shall be payable to Manager, *provided however*, that in the event Owner commences the reconstruction or restoration of the Hotel within two (2) years after the date of Termination of this Agreement as a result of such condemnation, at Manager's election, Owner shall either (i) reinstate Manager as manager of the Hotel under a management agreement which is identical to this Agreement or (ii) pay Manager the Termination Fee provided under this Agreement within thirty (30) days after Manager's demand therefor. Owner and Manager shall each have the right to initiate such proceedings against the condemning authority as they deem advisable to recover any damages to which they may be entitled. The provisions of this Section 6.03 shall survive Termination of this Agreement.

B. In the event a portion of the Hotel shall be taken by the events described in Section 6.03.A but the result is not to make it unreasonable to continue to operate the Hotel, this Agreement shall not terminate. However, so much of any award for any such partial or temporary taking or condemnation as shall be necessary to render the Hotel equivalent to its condition prior to such event shall be used by Owner for such purpose; and Manager shall have the right to discontinue operating the Hotel to the extent it deems necessary for the safe and orderly operation of the Hotel.

C. In the event a portion or all of the Hotel shall be taken on a temporary basis, without damage to the physical structure, but damage only to business operations, any award for such taking shall be treated as Gross Revenues and accounted for accordingly.

ARTICLE VII

TAXES

7.01 Real Estate and Personal Property Taxes

A. Except as specifically set forth in subsection 7.01.B below, all real estate and personal property taxes, levies, assessments and similar charges on or relating to the Hotel ("**Impositions**") during the Term shall be paid by Manager from Gross Revenues, before any fine, penalty, or interest is added thereto or lien placed upon the Hotel, unless, with the consent of Owner, payment thereof is in good faith being contested and enforcement thereof is stayed. Any such payments shall be Deductions in determining Operating Profit. Owner shall, within five (5) days after receipt, furnish Manager with copies of official tax bills and assessments which it may receive with respect to the Hotel. Either Owner or Manager (in which case Owner agrees to sign the required applications and otherwise cooperate with Manager in expediting the matter) may initiate proceedings to contest any negotiations or proceedings with respect to any Imposition, and all reasonable costs of any such contest shall be paid from Gross Revenues and shall be a Deduction in determining Operating Profit, provided, however, that Manager shall take no action to initiate such proceedings without having first provided Owner with written notice of Manager's intent to contest the Imposition. If Owner does not notify Manager of Owner's intent to initiate any such proceedings within five (5) business days following

Owner's receipt of Manager's notice, Manager shall be free to proceed with initiating its proceedings. Manager shall, as part of its contest or negotiation of any Imposition, and with the prior written consent of Owner, be entitled, on Owner's behalf, to waive any applicable statute of limitations in order to avoid paying the Imposition during the pendency of any proceedings or negotiations with applicable authorities. Manager shall fully cooperate with Owner in any contest brought by Owner.

B. The word "Impositions" as used in this Agreement shall not include the following, all of which shall be paid solely by Owner, not from Gross Revenues nor from the FF&E Reserve:

1. Any franchise, corporate, estate, inheritance, succession, capital levy or transfer tax imposed on Owner, or any income tax imposed on any income of Owner (including distributions to Owner pursuant to Article III hereof);

2. Special assessments (regardless of when due or whether they are paid as a lump sum or in installments, over time) imposed because of facilities, which are constructed by or on behalf of the assessing jurisdiction (for example, roads, sidewalks, sewers, culverts, etc.) which directly benefit the Hotel (regardless of whether or not they also benefit other buildings), which assessments shall be treated as capital costs of construction and not as Deductions;

3. "Impact Fees" (regardless of when due or whether they are paid as a lump sum or in installments over time) which are required of Owner as a condition to the issuance of site plan approval, zoning variances or building permits, which impact fees shall be treated as capital costs of construction and not as Deductions.

4. "Tax increment financing" or similar financing whereby the municipality or other taxing authority has assisted in financing the construction of the Hotel by temporarily reducing or abating normal Impositions in return for substantially higher levels of Impositions at later dates.

ARTICLE VIII

OWNERSHIP OF THE HOTEL

8.01 Ownership of the Hotel

A. Owner hereby covenants that it holds good and marketable leasehold title to the Site and that, upon completion of the Hotel, it will have, keep, and maintain good and marketable leasehold title to the Hotel free and clear of any and all liens, encumbrances or other charges, except as follows:

1. easements or other encumbrances (other than those described in subsections 8.01.2 and 8.01.3 hereof) that do not adversely affect the operation of the Hotel by Manager and that are not prohibited pursuant to Section 8.03 of this Agreement;

2. Secured Loans with respect to which a Non-Disturbance Agreement in favor of Manager has been executed and delivered;

3. Mortgages that are given to secure a Qualified Loan; and

4. liens for taxes, assessments, levies or other public charges not yet due or due but not yet payable.

B. Owner shall pay and discharge, on or before the due date, any and all payments due under any Mortgage that encumber the Hotel. Owner shall indemnify, defend, and hold Manager harmless from and against all claims, Litigation and damages arising from the failure to make any such payments as and when required; and this obligation of Owner shall survive Termination. Manager shall have no responsibility for payment of debt service due with respect to the Hotel, from Gross Revenues or otherwise, and such responsibility shall be solely that of Owner.

C. Owner covenants that Manager shall quietly hold, occupy and enjoy the Hotel throughout the Term hereof free from hindrance, ejection or molestation by Owner or other party claiming under, through or by right of Owner. Owner agrees to pay and discharge any payments and charges and at its expense, to prosecute all appropriate actions, judicial or otherwise, necessary to assure such free and quiet occupation.

8.02 Subordination of Management Agreement

This Agreement and all of the rights and benefits of Manager hereunder are, and shall be subject and subordinate to any Qualified Loan(s) which now or hereafter encumber the Hotel, subject, however, to Manager's right to receive payment of the Base Management Fee, Accounting Fee, and System Service Fee for so long as this Management Agreement has not been terminated by reason of such subordination. This subordination provision shall be self-operative and no other or further instrument of subordination shall be required; Manager agrees, however, upon request of any Qualified Lender, duly to execute and deliver any subordination agreement requested by such Qualified Lender to evidence and confirm the subordination effected under this Section 8.02. In no event shall this Agreement be subordinated to any mezzanine financing secured by Owner, or other non-Qualified Loan financing.

8.03 Non-Disturbance Agreement

Notwithstanding the provisions of Section 8.02, Owner agrees that, (1) before any Qualified Loan is obtained, Owner will exert all commercially reasonable good faith efforts to obtain from each prospective holder or holders thereof a Non-Disturbance Agreement in favor of Manager on terms and conditions reasonably acceptable to the parties thereto, and (2) before any Secured Loan that is not also a Qualified Loan is obtained, Owner shall obtain from each prospective holder or holders thereof, a Non-Disturbance Agreement in favor of Manager all upon terms and conditions reasonably

acceptable to Manager, whereupon (x) Manager shall execute such Non-Disturbance Agreement and (y) such Secured Loan shall, provided that the lender of such Secured Loan is a party that is the type of entity described in the definition of Qualified Lender, be deemed to be a Qualified Loan.

8.04 No Covenants, Conditions or Restrictions

A. Owner covenants that during the Term of this Agreement, there will not be (unless Manager has given its prior written consent thereto) any covenants, conditions or restrictions, including reciprocal easement agreements or cost-sharing arrangements (collectively referred to as "**CC&R's**"), affecting the Site or the Hotel (i) which would prohibit or limit Manager from operating the Hotel in accordance with the requirements of the Franchise Agreement and this Agreement, including related amenities proposed for the Hotel; (ii) which would allow Hotel facilities (for example, parking spaces) to be used by persons other than guests, invitees or employees of the Hotel, (iii) which would allow the Hotel facilities to be used for specified charges or rates which have not been approved by Manager in writing; or (iv) which would subject the Hotel to exclusive arrangements regarding food and beverage operation or retail merchandise.

B. Except for CC&Rs existing as of the date hereof, or unless otherwise agreed by both Owner and Manager, all financial obligations imposed on Owner or on the Hotel pursuant to any CC&Rs shall be paid by Owner from its own funds, and not from Gross Revenues or from the FF&E Reserve. Manager's consent to any such CC&R shall be conditioned (among other things) on satisfactory evidence that: (i) the CC&R in question provides a reasonable and cost effective benefit to the operation of the Hotel; (ii) the costs incurred (including administrative expenses) pursuant to such CC&R will be both reasonable and allocated to the Hotel on a reasonable basis; and (iii) no capital expenditures incurred pursuant to said CC&R will be paid from Gross Revenues or from the Reserve (but rather, such capital expenditures will be paid separately by Owner).

8.05 Liens; Credit

Manager and Owner shall use commercially reasonable efforts to prevent any liens from being filed against the Hotel which arise from any maintenance, repairs, alterations, improvements, renewals or replacements in or to the Hotel. Manager and Owner shall cooperate fully in obtaining the release of any such liens, and the cost thereof, if the lien was not occasioned by the fault of either party, shall be treated the same as the cost of the matter to which it relates. If the lien arises as a result of the fault of either party, then the party at fault shall bear the cost of obtaining the lien release. In no event shall either party borrow money in the name of or pledge the credit of the other.

8.06 Owner's Agreement

Simultaneously with the execution of this Agreement, Owner shall obtain from the landlord under the TRS Lease Agreement and deliver to Manager, a duly executed

"Owner's Agreement" in favor of Manager, substantially in the form attached hereto as **Exhibit D.**

8.07 Ground Lease

In the event the real property described on Exhibit A is subject to a Ground Lease, the provisions of Item 20 of the Schedule 1 shall apply.

ARTICLE IX

DEFAULTS

9.01 Default

Each of the following shall constitute a "Default," under this Agreement:

A. The appointment of a receiver, trustee, or custodian for all or any substantial part of the property of Manager or Owner, as the case may be, if such appointment is not set aside or vacated within sixty (60) days.

B. The commencement by Manager or Owner, as the case may be, of any voluntary case or proceeding under present or future federal bankruptcy laws or under any other bankruptcy, insolvency, or other laws respecting debtor's rights.

C. The making of a general assignment by Manager or Owner, as the case may be, for the benefit of its creditors.

D. The entry against Manager or Owner, as the case may be, or any "order for relief" or other judgment or decree by any court of competent jurisdiction in any involuntary proceeding against Manager or Owner, as the case may be, under any present or future federal bankruptcy laws or under any other bankruptcy, insolvency, or other laws respecting debtor's rights, if such order, judgment, or decree continues unstayed and in effect for a period of sixty (60) consecutive days.

E. The failure of Manager or Owner, as the case may be, to make any payment to be made in accordance with the terms hereof, and the defaulting party fails to cure the default within ten (10) days after receipt of written notice from the non-defaulting party demanding such cure.

F. The failure of Owner to provide to Manager sufficient Working Capital to operate the Hotel as required by Article VII and Section 4.05 within five (5) days after written notice from Manager of the failure of Owner to comply with the provisions of such Article and Section.

G. The failure of Manager or Owner, as the case may be, to perform, keep or fulfill any of the other covenants, undertakings, obligations, or conditions set forth in this

Agreement, and the continuance of such default for a period of thirty (30) days after notice of said failure, or if such Default cannot be reasonably cured within said 30-day time period, the failure of the defaulting party to commence the cure of such Default within said 30-day period or thereafter the failure to diligently pursue such efforts to completion.

H. Excluding the performance of the work required under the property improvement plan under the Franchise Agreement which is outstanding on the Effective Date hereof and which is, by agreement of the parties, the obligation of the prior owner of the Hotel to complete, the failure of Owner to complete the construction, furnishing and equipping of the Hotel in accordance with any subsequent plans approved by Franchisor under the Franchise Agreement, or alternatively, complete any and all work required under any subsequent property improvement plan under the Franchise Agreement and in compliance with the terms and conditions of the Franchise Agreement and this Agreement.

9.02 Event of Default

Upon the occurrence of any Default by either party (referred to as the "defaulting party") under Section 9.01 A, B, C, D, or H, such Default shall immediately and automatically, without the necessity of any notice to the defaulting party, constitute an "Event of Default" under this Agreement. Upon the occurrence of any Default by a defaulting party under Section 9.01 E, F, or G, such Default shall constitute an "Event of Default" under this Agreement if the defaulting party fails to cure such Default within the respective cure or payment period (as specified in the applicable Paragraph) after written notice from the non-defaulting party specifying such Default and demanding such cure or payment; provided, however, that if a Default under Section 9.01.G is such that it cannot reasonably be cured within said 30-day period, an "Event of Default" shall then occur if the defaulting party fails to commence the cure of such Default within said thirty (30) day period of time or the Default has not been cured with sixty (60) days from the receipt of said written notice.

9.03 Remedies upon Event of Default

Upon the occurrence of an Event of Default, the non-defaulting party shall have the right to pursue any one or more of the following courses of action: (i) in the event of a material breach by the defaulting party of its obligations under this Agreement, to terminate this Agreement by written notice to the defaulting party, which Termination shall be effective as of the effective date which is set forth in said notice (provided that said effective date shall be at least thirty (30) days after the date of said notice; or, if the defaulting party is Manager, the foregoing thirty (30) days shall be extended to such period of time as may be necessary under applicable law pertaining to termination of employment); and (ii) to institute any and all proceedings permitted by law or equity, including, without limitation, actions for specific performance and/or damages. Upon the occurrence of a Default by either party under Section 9.01.E, the amount owed to the non-defaulting party shall accrue interest, at the Prime Rate plus three percent (3%), from

and after the date on which such payment was originally due to the non-defaulting party. The rights granted hereunder shall not be in substitution for, but shall be in addition to, any and all rights and remedies available to the non-defaulting party by reason of applicable provisions of law or equity.

ARTICLE X

ASSIGNMENT AND SALE

10.01 Assignment

A. Manager shall not assign this Agreement, or delegate any of its responsibilities hereunder, without the prior written consent of Owner; provided, however, that Manager, shall have the right, without such consent but with prior notice to Owner, (1) to assign its interest in this Agreement to any of its Affiliates or (2) assign its interest in this Agreement to a successor or purchaser in connection with a merger or consolidation or a sale of all or substantially all of the assets of Manager.

B. Owner shall not assign or transfer its interest in this Agreement, without the prior written consent of Manager; provided, however, that Owner may assign this Agreement without the prior written consent of Manager, but with prior notice to Manager, to any Affiliate of Owner provided that the Real Estate Investment Trust, which is Owner's direct or indirect parent as of the Effective Date, directly or indirectly, at all times thereafter continues to hold a majority interest or voting control in such Affiliate, or a purchaser of the Hotel where such purchaser meets all of the requirements of the Franchise Agreement relative to franchisor owners.

C. Notwithstanding any provision contained in this Agreement, (i) the collateral assignment of this Agreement by Owner as security for any Mortgage securing a Qualified Loan, (ii) a Foreclosure, or (iii) the transfer of this Agreement in connection with a merger or consolidation or a sale of all or substantially all of the assets of either party (provided that (x) if such transfer is by Owner in connection with a sale of all or substantially all of its assets, the provisions of Section 10.02.A shall be complied with, and (y) if such transfer is by Manager, such transfer is being done as part of a merger or consolidation or a sale of all or substantially all of the business which consists of Manager's managed hotels), is permitted without the consent of the other party.

D. If either party consents to an assignment of this Agreement by the other, no further assignment shall be made without the express consent in writing of such party, unless such assignment may otherwise be made without such consent pursuant to the terms of this Agreement.

E. An assignment (either voluntarily or by operation of law) by Owner of its interest in this Agreement shall not relieve Owner from its obligations under this Agreement which accrued prior to the date of such assignment; Owner shall be relieved of such obligations accruing after such date, if the assignment complies with this Article

X and if Manager has received an assumption agreement executed by the assignee in form and substance reasonably acceptable to Manager.

F. An assignment (either voluntarily or by operation of law) by Manager of its interest in this Agreement shall not relieve Manager from its obligations under this Agreement which accrued prior to the date of such assignment; Manager shall be relieved of such obligations accruing after such date, if the assignment complies with this Article X and if Owner has received an assumption agreement executed by the assignee in form and substance reasonably acceptable to Owner.

10.02 Sale of the Hotel

A. Owner shall not enter into any Sale of the Hotel to any Person (or any Affiliate of any Person) who is known in the community as being of bad moral character, or has been convicted of a felony in any state or federal court, or is in control of or controlled by persons who have been convicted of felonies in any state or federal court, is ineligible due to misconduct to hold a alcoholic beverage license, or would be in violation of any Franchise Agreement requirements applicable to owners. Furthermore, Owner shall not enter into a Sale of the Hotel if Owner is at the time in Default, or has failed to cure such Default under the terms of this Agreement. Any Sale of the Hotel shall be subject to the continuing operation of this Agreement and upon such Sale of the Hotel, Owner shall require that such purchaser or tenant either take assignment of this Agreement by form of assignment and assumption agreement reasonably acceptable to Manager, or at the option of Manager, enter into a new management agreement with Manager, which new management agreement will be on all of the terms and conditions of this Agreement except that the Initial Term and Renewal Term(s) of any such new agreement shall consist only of the balance of the Initial Term and Renewal Term(s) remaining under this Agreement at the time of execution of any such new agreement. Such new management agreement shall be executed by Manager and such new owner at the time of closing of the Sale of the Hotel, and a memorandum of such new management agreement shall be executed by the parties and, if Manager so elects (at Manager's sole expense) recorded immediately following recording of the deed or memorandum of lease or assignment and prior to recordation of any other documents.

B. It is understood that no Sale of the Hotel (which is otherwise in compliance with the provisions of this Article X) shall reduce, or in the case of Owner's Additional Capital Investment affect: (i) the current level of Working Capital; (ii) the current amount deposited in the FF&E Reserve; (iii) any of the Operating Accounts maintained by Manager pursuant to this Agreement; or (iv) the amount of Owner's Additional Capital Investment. If, in connection with any Sale of the Hotel, the selling Owner intends to withdraw, for its own use, any of the cash deposits described in the preceding sentence, the selling Owner must obtain the contractual obligation of the buying Owner to replenish those deposits (in the identical amounts) simultaneously with such withdrawal. The selling Owner is hereby contractually obligated to Manager to ensure that such replenishment in fact occurs. The obligations described in this Section 10.02.B shall survive such Sale of the Hotel and shall survive Termination.

ARTICLE XI

MISCELLANEOUS

11.01 Right to Make Agreement

Each party warrants, with respect to itself, that neither the execution of the Agreement nor the finalization of the transactions contemplated hereby shall violate any provision of law or judgment, writ, injunction, order or decree of any court or governmental authority having jurisdiction over it; result in or constitute a breach or default under any indenture, contract, other commitment or restriction to which it is a party or by which it is bound; or, subject to Section 11.17 of this Agreement, require any consent, vote or approval which has not been taken, or at the time of the transaction involved shall not have been given or taken. Each party covenants that it has and will continue to have throughout the Term of the Agreement and any extensions thereof, the full right to enter into the Agreement and perform its obligations hereunder.

11.02 Consents and Cooperation

Wherever in the Agreement the consent or approval of Owner or Manager is required, such consent or approval shall not be unreasonably withheld, delayed or conditioned, except as otherwise provided herein, and shall be in writing and shall be executed by a duly authorized officer or agent of the party granting such consent or approval. If either Owner or Manager fails to respond within thirty (30) days to a request by the other party for a consent or approval, such consent or approval shall be deemed to have been given (except as otherwise provided in this Agreement). Additionally, Owner agrees to cooperate with Manager by considering any leases, subleases, licenses, concessions, equipment leases, service contracts and other agreements negotiated in good faith by Manager and pertaining to the Hotel that, in Manager's reasonable judgment, should be made in the name of the Owner of the Hotel.

11.03 Relationship

A. In the performance of this Agreement, Manager shall act solely as an independent contractor. Neither this Agreement nor any agreements, instruments, documents, or transactions contemplated hereby shall in any respect be interpreted deemed or construed as making Manager a partner, joint venturer with, or agent of, Owner; provided, however, that the parties acknowledge that the relationship created by this Agreement shall constitute an agency coupled with an interest except as expressly provided herein. Owner and Manager agree that neither party will make any contrary assertion, claim or counterclaim in any action, suit, arbitration, or other legal proceedings involving Owner and Manager.

B. TO THE EXTENT ANY FIDUCIARY DUTIES ARE INCONSISTENT WITH, OR WOULD HAVE THE EFFECT OF MODIFYING, LIMITING OR RESTRICTING, THE EXPRESS PROVISIONS OF THIS AGREEMENT: (A) THE TERMS OF THIS AGREEMENT SHALL PREVAIL; (B) THIS AGREEMENT SHALL BE INTERPRETED IN ACCORDANCE WITH GENERAL PRINCIPLES OF CONTRACT INTERPRETATION WITHOUT REGARD TO THE COMMON LAW PRINCIPLES OF AGENCY (EXCEPT AS EXPRESSLY PROVIDED FOR IN THIS AGREEMENT); AND (C) ANY LIABILITY BETWEEN THE PARTIES SHALL BE BASED SOLELY ON PRINCIPLES OF CONTRACT LAW AND THE EXPRESS FIDUCIARY DUTIES AND OBLIGATIONS UNDER THIS AGREEMENT. THE PARTIES ACKNOWLEDGE THAT THE TERMS AND PROVISIONS OF THIS AGREEMENT AND THE DUTIES AND OBLIGATIONS SET FORTH HEREIN ARE INTENDED TO SATISFY THE FIDUCIARY DUTIES WHICH MAY EXIST AS A RESULT OF

THE RELATIONSHIP BETWEEN THE PARTIES, INCLUDING WITHOUT LIMITATION ALL DUTIES OF LOYALTY, GOOD FAITH, FAIR DEALING, FULL DISCLOSURE OR ANY OTHER DUTY DEEMED TO EXIST UNDER THE COMMON LAW PRINCIPLES OF AGENCY OR OTHERWISE.

THE PARTIES HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVE AND RELEASE ANY RIGHT, POWER OR PRIVILEGE EITHER MAY HAVE TO CLAIM OR RECEIVE FROM THE OTHER PARTY ANY PUNITIVE, EXEMPLARY, STATUTORY OR TREBLE DAMAGES OR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY BREACH OF FIDUCIARY DUTIES.

11.04 Applicable Law

The Agreement shall be construed under and shall be governed by the laws of the State in which the Hotel is located.

11.05 Recordation

The terms and provisions of the Agreement shall run with the parcel of land designated as the Site, and with Owner's interest therein, and shall be binding upon all successors to such interest. Simultaneously with the execution of this Agreement, the parties shall execute a recordable "Memorandum of Management Agreement," in the form which is attached hereto as **Exhibit B**. At Manager's election, such memorandum shall be recorded or registered promptly following the Effective Date in the jurisdiction in which the Hotel is located. Any cost of such recordation shall be paid by Manager.

11.06 Headings

Headings of articles and sections are inserted only for convenience and are in no way to be construed as a limitation on the scope of the particular articles or sections to which they refer.

11.07 Notices

Notices, statements and other communications to be given under the terms of the Agreement shall be in writing and delivered by hand against receipt or sent by certified or registered mail or Express Mail service, postage prepaid, return receipt requested or by nationally utilized overnight delivery service, addressed to the parties as set forth on Schedule 1 or at such other address as is from, time to time designated by the party receiving the notice. Any such notice that is mailed in accordance herewith shall be deemed received when delivery is received or refused, as the case may be. Additionally, notices may be given by telephone facsimile transmission, provided that an original copy of said transmission shall be delivered to the addressee by nationally utilized overnight delivery service by no later than the second business day following such transmission. Telephone facsimiles shall be deemed delivered on the date of such transmission

11.08 Environmental Matters

A. Owner hereby represents and warrants to Manager that, as of the Effective Date, except as set forth on Schedule 11.08 hereto, to the best of Owner's knowledge, based solely on a Phase I Environmental Site Assessment, there are no Hazardous Materials (as defined below) on any portion of the Site or the Hotel, nor have any Hazardous Materials been released or discharged on any portion of the Site or the Hotel. In addition, Owner hereby represents and warrants that it has previously delivered to Manager copies of all reports concerning environmental conditions which have been received by Owner or any of its Affiliates. In the event of the discovery of Hazardous Materials on any portion of the Site or in the Hotel during the Term, Owner shall promptly remove such Hazardous Materials, together with all contaminated soil and containers, and shall otherwise remedy the problem in accordance with (1) the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., as amended; (2) the regulations promulgated thereunder, from time to time; (3) all federal, state and local laws, rules and regulations (now or hereafter in effect) dealing with the use, generation, treatment, storage, disposal or abatement of Hazardous Materials; and (4) the regulations promulgated thereunder, from time to time (collectively referred to as "**Environmental Laws**"). Owner shall indemnify, defend and hold Manager harmless from and against all loss, costs, liability and damage (including, without limitation, engineers' and attorneys' fees and expenses, and the cost of Litigation) arising from the presence of Hazardous Materials on the Site or in the Hotel, and this obligation of Owner shall survive Termination. "Hazardous Materials" shall mean and include any substance or material containing one or more of any of the following: "hazardous material," "hazardous waste," "hazardous substance," "regulated substance," "petroleum," "pollutant," "contaminant," "polychlorinated biphenyls," "lead or lead based paint" or "asbestos" as such terms are defined in any applicable Environmental Law in such concentration(s) or amount(s) as may impose cleanup, removal, monitoring or other responsibility under the Environmental Laws, as the same may be amended from time to time, or which may present a significant risk of harm to guests, invitees or employees of the Hotel.

B. All costs and expenses of the aforesaid removal of Hazardous Materials from the Site or the Hotel, and of the aforesaid compliance with all Environmental Laws, and any amounts paid to Manager pursuant to the indemnity set forth in Section 11.08.A., shall be paid by Owner from its own funds, and not from Gross Revenues or from the Reserve. The provisions of this Section 11.0.B shall survive Termination of this Agreement.

11.09 Confidentiality

Except for the initial prospectus by Owner or its Affiliates to solicit funds for the acquisition of the Hotel (which shall be excluded from the provisions of this Section), no reference to Manager or to any Affiliate will be made in any prospectus, private placement memorandum, offering circular or offering documentation related thereto (collectively referred to as the "Prospectus"), issued by Owner or by one of Owner's Affiliates, which is designated to interest potential investors in debt or equity securities related to the Hotel, unless Manager has previously received a copy of a draft of such Prospectus prior to its public dissemination. However, regardless of whether Manager does or does not so receive a copy of all such references, neither Manager nor any Affiliate will be deemed a sponsor of the offering described in the Prospectus, nor will it have any responsibility for the Prospectus, and the Prospectus will so state. Unless Manager agrees in advance, the Prospectus will not include any trademark, symbols, logos or designs of Manager or any Affiliates. Owner shall indemnify, defend and hold Manager harmless from and against all loss, costs, liability and damage (including attorneys' fees and expenses, and the cost of litigation) arising out of any Prospectus or the offering described therein; and this obligation of Owner shall survive Termination of this Agreement.

11.10 Projections

Owner acknowledges that any written or oral projections, proformas, or other similar information that has been, (prior to execution of this Agreement) or will (during the Term of this Agreement) be provided by Manager to Owner is for information purposes only and that Manager does not guarantee that the Hotel will achieve the results set forth in any such projections, proformas, or other similar information. Any such projections, proformas, or other similar information will be based on reasonable assumptions and estimates using Manager's professional experience. Unanticipated events may occur subsequent to the date of preparation of such projections, proformas, and other similar information. Therefore, the actual results achieved by the Hotel are likely to vary from the estimates contained in any such projections, proformas, or other similar information and such variations might be material.

11.11 Actions to be Taken Upon Termination

Upon a Termination of this Agreement, the following shall be applicable:

A. Manager shall, within ninety (90) days after Termination of this Agreement, prepare and deliver to Owner a final accounting statement with respect to the Hotel, as more particularly described in Section 4.01 hereof, along with a statement of any sums due either party to the other pursuant hereto, dated as of the date of Termination. Within thirty (30) days after the receipt by Owner of such final accounting, the parties will make whatever cash adjustments are necessary pursuant to such final statement. The cost of preparing such final accounting statement shall be a Deduction, unless the Termination occurs as a result of an Event of Default by either party, in which case the defaulting party shall pay such cost. Manager and Owner acknowledge that there may be certain adjustments for which the information will not be available at the time of the final accounting and the parties agree to readjust such amounts and make the

necessary cash adjustments when such information becomes available; provided, however, that all accounts shall be deemed final as of one hundred eighty (180) days after the date of Termination.

B. Manager shall immediately release and transfer to Owner any of Owner's funds which are held or controlled by Manager with respect to the Hotel with the exception of funds to be held in escrow pursuant to Sections 6.01.F and 11.11.F and otherwise in accordance herewith.

C. Manager shall make available to Owner the relevant books and records of Manager relating to the operation and management of the Hotel as will be needed by Owner to prepare the accounting statements, in accordance with the Uniform System of Accounts, for the Hotel for the year in which Termination occurs and for any subsequent year.

D. Manager shall (to the extent permitted by law) assign to Owner or to the new manager all operating licenses and permits for the Hotel which have been issued in Manager's name (including alcoholic beverage and restaurant licenses, if any); provided that if Manager has expended any of its own funds in the acquisition of any of such licenses or permits, Owner shall reimburse Manager therefor if it has not done so already.

E. Any computer software (including upgrades and replacements) at the Hotel owned by Manager or an Affiliate of Manager, or the licensor of any of them is proprietary to Manager or such Affiliate, or the licensor of any of them and shall in all events remain the exclusive property of Manager or its Affiliate or the licensor of any of them, as the case may be, and nothing contained in this Agreement shall confer on Owner the right to use any of such software, except for all such computer software which was either purchased by Owner or was purchased by Manager with the cost of such purchase being paid from Gross Revenues of the Hotel (the "**Owner's Software**"), all of which software shall remain the property of Owner, and shall remain on the site after Termination. Manager shall have the right to remove from the Hotel without

compensation to Owner any computer software (including upgrades and replacements), including, without limitation, the System Services software, owned by Manager or its Affiliate or the licensor of any of them, except for Owner's Software. Furthermore, upon Termination, Manager shall be entitled to remove from the Hotel any computer equipment which is: (i) owned by a party other than Owner (without reimbursement to Owner); or (ii) owned by Owner, but utilized as part of a centralized reservation or property management system (with reimbursement to Owner of all previous expenditures made by Owner with respect to such equipment, subject to a reasonable allowance for depreciation). Except to the extent restricted by any Legal Requirements or by the terms of the Franchise Agreement, at Termination, all data relative to the operations of the Hotel shall be transferred to Owner.

F. If this Agreement is terminated for any reason, other than a Termination by reason of an Event of Default of Manager hereunder, an escrow fund shall be established from Gross Revenues to reimburse Manager for all reasonable costs and expenses incurred by Manager in terminating its employees at the Hotel, such as severance pay, unemployment compensation, employment relocation, and other employee liability costs arising out of the termination of employment of Manager's employees at the Hotel, provided, however, that Manager shall take all reasonable measures to limit all such costs. If Gross Revenues are insufficient to meet the requirements of such escrow fund, then Owner shall deliver to Manager, within ten (10) days after receipt of Manager's written request therefor, the sums necessary to establish such escrow fund; and if Owner fails to timely deliver such sums to Manager, Manager shall have the right (without affecting Manager's other remedies under this Agreement) to withdraw the amount of such expenses from the FF&E Reserve, the Working Capital funds or any other funds of Owner held by or under the control of Manager.

G. If this Agreement is terminated in accordance with its terms for any reason other than (1) an Event of Default by Manager, (2) a Performance Termination pursuant to Section 2.02.A, or (3) expiration of the Term, then Owner shall, within ten (10) days after Manager's request therefor, pay to Manager the Termination Fee set forth in Schedule 1. If Owner fails to pay the Termination Fee within the time period set forth herein, then Manager shall have the right (without affecting Manager's other remedies under this Agreement) to withhold the amount of such fee from the Operating Accounts, the FF&E Reserve, the Working Capital funds or any other funds of Owner held by or under the control of Manager. The Termination Fee is agreed to be fair and equitable compensation for Manager's lost revenue and not as a penalty. Notwithstanding any provision of this Agreement to the contrary, in the event Manager elects to terminate this Agreement as a result of an Event of Default by Owner, Manager may, at its option and in its sole and absolute discretion, elect to recover the Termination Fee as liquidated damages for that part of its damage claim constituting lost revenue as a result of such Termination. In no event shall the provisions of this Section 11.11.G be construed as granting Owner the right to terminate this Agreement.

H. Owner shall use its reasonable efforts to cause the entity which shall succeed Manager as the operator of the Hotel to hire a sufficient number of the

employees at the Hotel to avoid the occurrence, in connection with such Termination, of a "closing" under the WARN Act.

I. Various other actions shall be taken, as described in this Agreement, including, but not limited to, the actions described in Sections 4.05 and 6.01.F.

J. Manager shall peacefully vacate and surrender the Hotel to Owner and shall cooperate with the Owner and with the new manager to ensure the proper and efficient transition of the Hotel's operation and management.

The provisions of this Section 11.11 shall survive Termination.

11.12 Trademarks, Trade Names and Service Mark

A. The name "White Lodging Services Corporation," or "White Lodging" or "WLS" when used alone or in connection with another word or words (collectively, "**Trade Names**"), and the White Lodging trademarks, service marks, other trade names, symbols, logos and designs shall in all events remain the exclusive property of Manager or its Affiliates, and nothing contained in this Agreement shall confer on Owner the right to use any of the Trade Names, or the White Lodging trademarks, service marks, other trade names, symbols, logos or designs otherwise than in strict accordance with the terms of this Agreement.

B. All Intellectual Property shall at all times be proprietary to Manager or its Affiliates, and shall be the exclusive property of Manager or its Affiliates. During the Term of this Agreement, Manager shall be entitled to take all reasonable steps to ensure that the Intellectual Property remains confidential and is not disclosed to anyone other than Manager's employees at the Hotel. Upon Termination, all Intellectual Property shall be removed from the Hotel by Manager, without compensation to Owner, subject to the provisions of Section 11.11.E regarding Software.

C. Breach of Covenants. Owner and Manager shall each be entitled, in case of any breach by the other party of any of the covenants of this Section 11.12, to injunctive relief and to any other right or remedy available at law. The provisions of this Section 11.12 shall survive Termination.

11.13 Competing Facilities

Neither this Agreement nor anything implied by the relationship between Manager and Owner shall prohibit Manager or its Affiliates from constructing, operating, developing, owning, promoting, and/or authorizing others to construct, operate, develop, own or market one or more hotels, lodging concepts, time-share facilities, restaurants, or other business operations of any type, at any location, including a location proximate to the Site. Owner acknowledges, accepts and agrees further that Manager retains the right, from time to time, to construct, operate, develop and/or own, or promote or acquire, or authorize or otherwise license others to construct, operate, develop and/or own, or promote or acquire any hotels, lodging concepts or products, restaurants or other business operations of any type whatsoever, including, but not by way of limitation, those listed above, at any location including one or more sites which may be adjacent, adjoining or proximate to the Site, which business operations may be in direct competition with the Hotel and that any such exercise may adversely affect the operation of the Hotel.

11.14 Waiver

The failure of either party to insist upon a strict performance of any of the terms or provisions of the Agreement, or to exercise any option, right or remedy contained in this Agreement, shall not be construed as a waiver or as a relinquishment for the future of such term, provision, option, right or remedy, but the same shall continue and remain in full force and effect. No

waiver by either party of any term or provision hereof shall be deemed to have been made unless expressed in writing and signed by such party.

11.15 Partial Invalidity

If any portion of any term or provision of this Agreement, or the application thereof to any person or circumstance shall be invalid or unenforceable, at any time or to any extent, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

11.16 Survival

Except as otherwise specifically provided in this Agreement, the rights and obligations of the parties herein shall not survive any Termination.

11.17 Affiliates

Manager shall be entitled to contract with one or more of its Affiliates to provide goods and/or services to the Hotel, provided that the prices and/or fees paid to any such Affiliate are competitive with the prices and/or fees which would be charged by reputable and qualified parties which are not Affiliates of Manager for similar goods and/or services (an "**Affiliate Contract**"). The prices and/or fees paid to its Affiliates may include overhead and the allowance of a reasonable return customary for the goods

and/or services to be provided. In determining, pursuant to the foregoing, whether such prices and/or fees are competitive, the goods and/or services which are being purchased shall be grouped in reasonable categories, rather than being compared item by item. Affiliates shall pass through to Owner all discounts, rebates and other purchasing benefits it receives in connection with the goods and services furnished to the Hotel. In advance of entering into an Affiliate Contract, Manager shall disclose the proposed Affiliate Contract to Owner for the purpose of obtaining Owner's prior written consent thereto. If Owner fails to respond to the request for consent within fifteen (15) days following delivery of the request, Owner shall be deemed to have consented to the Affiliate Contract.

11.18 Negotiation of Agreement

Owner and Manager are both business entities having substantial experience with the subject matter of this Agreement, and each has fully participated in the negotiation and drafting of this Agreement. Accordingly, this Agreement shall be construed without regard to the rule that ambiguities in a document are to be construed against the draftsman. No inferences shall be drawn from the fact that the final, duly executed Agreement differs in any respect from any previous draft hereof.

11.19 Estoppel Certificates

Each party to this Agreement shall at any time and from time to time, upon not less than fifteen (15) days' prior notice from the other party, execute, acknowledge and deliver to such other party, or to any third party specified by such other party, a statement in writing: (a) certifying that this Agreement is unmodified and in full force and effect (or if there have been modifications, that the same, as modified, is in full force and effect and stating the modifications); and (b) stating to the best knowledge of the certifying party (i) whether or not there is a continuing Event of Default by the non-certifying party (or any event that, with the giving of notice, the lapse of time or both would constitute an Event of Default) in the performance or observance of any covenant, agreement or condition contained in this Agreement, (ii) the amount, if any, of any past due fees or other past due amounts owed to Manager or Owner; and (iii) whether or not there are any past due and unpaid obligations with respect to the Hotel, other than in the ordinary course of business. Such statement shall be binding upon the certifying party and may be relied upon by the non-certifying party and/or such third party specified by the non-certifying party as aforesaid. In addition, upon written request after a Termination, each party agrees to execute and deliver to the non-certifying party and to any such third party a statement certifying that this Agreement has been terminated. This provision shall survive Termination.

11.20 Entire Agreement

This Agreement including all Schedules and Exhibits, together with any other writings signed by the parties expressly stated to be supplemental hereto and together with any instruments to be executed and delivered pursuant to this Agreement, constitutes the entire agreement between the parties and supersedes all prior understandings and

writings, and may be amended only by a written instrument that has been duly executed by the signature of an authorized representative of the parties hereto.

11.21 Expert Decisions

Where a matter is to be referred to an Expert for determination, the following provisions shall apply to such Expert's determination:

A. Resolution of the matter or dispute referred to the Expert for resolution (the "**Expert Resolution Process**") shall be the sole and exclusive remedy available to the parties with respect to such matter or dispute. Absent manifest error, the decision of the Expert shall be final and binding on the parties and shall not be capable of challenge, whether by arbitration, in court or otherwise. The failure of either party to adhere to the decision of the Expert shall constitute a Default hereunder.

B. The parties will observe in all respects, the terms and provisions of this Section 11.21 and any attempt to circumvent the terms shall be null and void. Upon the occurrence of a matter to be referred to the Expert (an "**Expert Resolution Dispute**"), either party may notify the other that a matter or dispute exists and in the event that the parties have been unable to resolve such matter or dispute within thirty (30) days, either party may give notice ("**Expert Notice**") to the other party of submission of such dispute to the Expert Resolution Process set forth herein.

C. For purposes of this Section 11.21, the term "**Expert**" shall mean an individual employed by an independent, nationally recognized hotel consulting firm who is qualified to resolve the issue in question, having at least ten (10) years experience in the subject matters in question. The Expert shall be appointed in each instance by agreement of the parties or, failing agreement, each party shall select one (1) such individual and the two (2) individuals so selected shall select another qualified individual to be the Expert. Each party agrees that it shall not appoint an individual as an Expert hereunder if the individual is, as of the date of appointment or within three (3) years prior to such date, employed by such party, either directly or as a consultant, in connection with any matter.

D. In the event that either party calls for an Expert determination pursuant to the terms hereof, the parties shall have ten (10) days from the date of delivery of the Expert Notice to agree upon an Expert and, if they fail to agree, each party shall have an additional ten (10) days to make its respective selection of a qualified individual, and within ten (10) days of such respective selections, the two individuals so selected shall select another qualified individual to be the Expert. If either party fails to make its respective selection of a firm or individual within the ten (10) day period provided for above, then the other party's selection shall be the Expert. If the two (2) individuals so selected shall fail to select a third qualified individual to be the Expert, then such Expert shall be appointed by the American Arbitration Association.

E. Each party shall be entitled to make written submissions to the Expert, and if a party makes any submission it shall also provide a copy to the other party and the

other party shall have the right to comment on such submission provided such submissions are made within thirty (30) days of selection of the Expert(s) (the "**Submissions Period**"). The parties shall make available to the Expert all books and records relating to the issue in dispute and shall render to the Expert any assistance requested of the parties. The cost of the Expert and the proceedings shall be borne as directed by the Expert unless otherwise provided for herein. The Expert may direct that such cost be treated as a Deduction.

F. The terms of engagement of the Expert shall include an obligation on the part of the Expert to: (i) notify the parties in writing of the Expert's decision within thirty (30) days after the expiration of the Submissions Period (or such other period as the parties may agree or as set forth herein); (ii) apply the standards applicable to first-class hotels and in all events, consistent with the requirements of the Franchise Agreement; and (iii) apply strictly the applicable provisions of this Agreement.

G. No party, or anyone acting on its behalf, shall have *ex parte* communications with any Expert concerning any matter of substance relating to the matter at issue.

H. All aspects of the Expert Resolution Process shall be treated as confidential.

11.22 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which shall constitute one and the same instrument. Such executed counterparts may be delivered by facsimile which, upon transmission to the other party, shall have the same force and effect as delivery of the original signed counterpart. The submission of an unsigned copy of this Agreement or an electronic instrument with or without electronic signature to either party shall not constitute an offer or acceptance.

11.23 Waiver of Jury Trial and Punitive Damages

Owner and Manager each hereby absolutely, irrevocably and unconditionally waive trial by jury and the right to claim punitive damages in any Litigation, arising out of or pertaining to this Agreement or any other agreement, instrument or document entered into in connection herewith.

ARTICLE XII

[Intentionally Deleted]

ARTICLE XIII

DEFINITION OF TERMS

13.01 Definition of Terms

The following terms when used in the Agreement shall have the meanings indicated:

"**Accounting Fee**" shall have the meaning ascribed to it in Schedule 1.

"**Accounting Period**" shall mean each of the twelve (12) calendar month accounting periods used by Manager for the Hotel pursuant to generally accepted accounting principles.

"**Accounting Period Statement**" shall have the meaning set forth in Section 4.01.A.

"**Affiliate(s)**" shall mean, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, directly or indirectly, of the power to vote more than 50% of the voting stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting stock, by contract or otherwise.

"**Affiliate Contract**" shall have the meaning ascribed to it in Section 11.17.

"**Agreement**" shall mean this Management Agreement between Owner and Manager, including the exhibits attached hereto.

"**Annual Operating Budget**" shall have the meaning ascribed to it in Section 4.04.

"**Available Cash Flow**" shall mean an amount, with respect to each Fiscal Year or portion thereof during the Term of this Agreement, equal to the excess, if any, of the Operating Profit over the Owner's Priority.

"**Base Management Fees**" shall mean an amount payable to Manager as a Deduction from Gross Revenues equal to the percentage of Gross Revenues shown in Schedule 1 for each Fiscal Year or portion thereof.

"**Building Estimate**" shall have the meaning ascribed to it in Section 5.03.

"**Capital Expenditures**" shall have the meaning set forth in Section 5.03.A.

"**CC&R's**" shall have the meaning ascribed to it in Section 8.04.

"**Competitive Set**" shall mean the group of hotels which are generally within the same hotel market segment as the Hotel. The initial Competitive Set is identified on Schedule 1 attached hereto and made a part hereof. If any such hotels, subsequent to the Effective Date, either changes its chain affiliation or ceases to operate or otherwise ceases to reflect the general criteria set forth in the first sentence of this definition, the Competitive Set shall be changed at the request of either Owner or Manager and approval of both parties so that it continues to satisfy the criteria set forth in the first sentence of this definition. If the parties fail to reach agreement on any proposed change, such matter shall be referred to the Expert.

"**CPI**" shall mean the Consumer Price Index, Urban Workers for Chicago, Illinois [1982-84=100] as published by the Bureau of Labor Statistics of the United States Department of Labor. If such CPI is discontinued in the future, or ceases (in the reasonable opinion of Owner or Manager) to be a satisfactory source of such data, Manager shall select an alternative source, subject to Owner's approval. If the parties fail to agree on such alternative source within a reasonable period of time, the matter shall be resolved by the Expert Resolution Process. Such alternative source shall thereafter be referred to as the CPI.

"**Deductions**" shall have the meaning ascribed to it in the definition of Operating Profit.

"**Default**" shall have the meaning ascribed to it in Section 9.01.

"**Deficit Amount**" shall have the meaning ascribed to it in Section 2.02.

"**Effective Date**" shall have the meaning ascribed to it in Schedule 1.

"**Environmental Laws**" shall have the meaning ascribed to it in Section 11.08.

"**Event of Default**" shall have the meaning ascribed to it in Section 9.01.

"**Expert**" shall have the meaning ascribed to it in Section 11.21.C.

"**Expert Notice**" shall have the meaning ascribed to it in Section 11.21.

"**Expert Resolution Dispute**" shall have the meaning ascribed to it in Section 11.21.

"**Expert Resolution Process**" shall have the meaning ascribed to it in Section 11.21.

"**Expiration Date of the Initial Term**" shall have the meaning ascribed to it in Schedule 1.

"**Fair Market Value**" shall mean the fair market value of the Hotel as reasonably determined by Owner and Manager. If Owner and Manager cannot agree on the Fair Market Value, Fair Market Value shall be determined through the Expert Resolution Process.

"Fee Owner" shall mean the party identified on Schedule 1, if any, to the extent the landlord under the TRS Lease Agreement holds a fee simple interest in the Hotel.

"**FF&E**" shall mean furniture, furnishings, fixtures, kitchen appliances, signage, audio-visual equipment, vehicles, carpeting and equipment, including front desk and back-of-the house computer equipment, but shall not include Fixed Asset Supplies or any computer software of any type (including upgrades and replacements) owned by Manager, an Affiliate of Manager, or the licensor of any of them, except for Owner's Software, as defined in Section 11.11E, which shall be included in FF&E.

"**FF&E Estimate**" shall have the meaning ascribed to it in Section 5.02.C.

"**FF&E Reserve**" shall have the meaning ascribed to it in Section 5.02.A.

"**Fiscal Year**" shall mean the year which ends at midnight on December 31 in each calendar year; the new Fiscal Year begins on January 1 immediately following. Any partial Fiscal Year between the Effective Date and the commencement of the first full Fiscal Year shall constitute a separate Fiscal Year but shall not be considered to be the "first Fiscal Year". A partial Fiscal Year between the end of the last full Fiscal Year and the Termination of this Agreement shall also constitute a separate Fiscal Year.

"**Fixed Asset Supplies**" shall mean items included within "Property and Equipment" under the Uniform System of Accounts including, but not limited to, linen, china, glassware, tableware, uniforms, and similar items, whether used in connection with public space or Guest Rooms.

"**Force Majeure**" shall mean acts of God, acts of war, civil disturbance, governmental action (including the revocation or refusal to grant licenses or permits, where such revocation or refusal is not due to the fault of the party whose performance is to be excused for reasons of Force Majeure), road closures, strikes, lockouts, fire, unavoidable casualties or any other causes beyond the reasonable control of either party (excluding, however, lack of financing).

"**Foreclosure**" shall mean any exercise of the remedies available to a Mortgagee, upon a default under the Mortgage held by such Mortgagee, which results in a transfer of title to or possession of the Hotel. The term "Foreclosure" shall include, without limitation, any one or more of the following events, if they occur in connection with a default under a Mortgage: (i) a transfer by judicial foreclosure; (ii) a transfer by deed in lieu of foreclosure; (iii) the appointment by a court of a receiver to assume possession of the Hotel; (iv) a transfer of either ownership or control of the Owner, by exercise of a

stock pledge or otherwise in the exercise of a remedy held by the Mortgagee; (v) if title to the Hotel is held by Owner, as tenant under a ground lease, an assignment of the tenant's interest in such ground lease in the exercise of a remedy held by the Mortgagee; or (vi) any similar judicial or non-judicial exercise of the remedies held by the Mortgagee.

"**Franchise Agreement**" shall mean the franchise agreement described in Schedule 1 attached hereto and made a part hereof, as the same may be amended or supplemented from time to time pursuant to the terms of this Agreement or such other franchise agreement as may be entered into by Owner consistent with the provisions of this Agreement.

"**Franchisor**" shall mean the franchisor identified in Schedule 1 or any replacement franchisor.

"**Gross Revenues**" shall mean all revenues and receipts of every kind derived from operating the Hotel and all departments and parts thereof, including, but not limited to: income (from both cash and credit transactions) from the rental of Guest Rooms, telephone charges, stores, offices, exhibit or sales space of every kind; license, lease and concession fees and rentals, (not including gross receipts of licensees, lessees and concessionaires); income from vending machines; income from parking; health club membership fees; food and beverage sales; wholesale and retail sales of merchandise; service charges; and proceeds, if any, from business interruption or other loss of income insurance; *provided, however, that Gross Revenues shall not include the following:* gratuities to employees of the Hotel; federal, state or municipal excise, sales or use taxes or any other taxes collected directly from patrons or guests or included as part of the sales price of any goods or services; proceeds from the sale of FF&E; interest received or accrued with respect to the funds in the FF&E Reserve or the other operating accounts of the Hotel; any refunds, rebates, discounts and credits of a similar nature, given, paid or returned in the course of obtaining Gross Revenues or components thereof, provided that all such rebates, refunds, discounts and credits shall be credited to the benefit of Owner; insurance proceeds (other than proceeds from business interruption or other loss of income insurance); condemnation proceeds (other than for a temporary taking); or any proceeds from any Sale of the Hotel or from the refinancing of any debt encumbering the Hotel.

"**Ground Lease**" shall mean that certain ground lease between the Prime Lessor as ground lessor and the Prime Lessee, as ground lessee, all as identified on Schedule 1, if any.

"**Guest Room**" shall mean a lodging unit in the Hotel.

"**Hazardous Materials**" shall have the meaning ascribed to it in Section 11.08.

"**Hotel**" shall mean the Site together with the following: (i) the Improvements, parking garage and all other Improvements constructed or to be constructed on the Site pursuant to this Agreement; (ii) all FF&E, Fixed Asset Supplies and Inventories installed

or located on the Site or in the Improvements; and (iii) all easements or other appurtenant rights thereto.

"**Impositions**" shall have the meaning ascribed to it in Section 7.01.

"**Improvements**" shall have the meaning ascribed to it in Section A of the Recitals.

"**Incentive Management Fee(s)**" shall mean an amount payable to Manager, pursuant to Section 3.02 and Section 4.01, that is equal to the percentage set forth in Schedule 1 of Available Cash Flow in any Fiscal Year (or portion thereof).

"**Initial Term**" shall have the meaning ascribed to it in Section 2.01 and Schedule 1.

"**Initial Working Capital**" shall mean that amount set forth on Schedule 1.

"**Insurance Retention**" shall have the meaning ascribed to it in Section 6.01.F.

"**Intellectual Property**" shall mean: (i) all Software; and (ii) all manuals, brochures and directives issued by Manager to its employees at the Hotel regarding the procedures and techniques to be used in operating the Hotel.

"**Inventories**" shall mean "Inventories" as defined in the Uniform System of Accounts, such as, but not limited to, provisions in storerooms, refrigerators, pantries and kitchens; beverages in wine cellars and bars; other merchandise intended for sale; fuel; mechanical supplies; stationery; and other expensed supplies and similar items.

"**Legal Requirement**" shall mean any federal, state or local law, code, rule, ordinance, regulation or order of any governmental authority or agency having jurisdiction over the business or operation of the Hotel or the matters which are the subject of this Agreement, including, without limitation, the following: (i) any building, zoning or use laws, ordinances, regulations or orders; and (ii) Environmental Laws.

"**Litigation**" shall mean: (i) any cause of action (including, without limitation, bankruptcy or other debtor/creditor proceedings) commenced in a federal, state or local court; or (ii) any claim brought before an administrative agency or body (for example, without limitation, employment discrimination claims).

"**Management Fees**" shall mean collectively, Base Management Fees and Incentive Management Fees.

"**Manager**" shall have the meaning ascribed to it in Schedule 1 or shall mean any successor or permitted assign, as applicable.

"**Mortgage**" shall mean any first lien mortgage or security documents encumbering the Hotel or Owner's leasehold interest in the Site obtained by Owner, Fee Owner or Prime Lessee as the case may be from time to time, including, without limitation, mortgages, deeds of trust, security deeds and limited instruments.

"**Mortgagee**" shall mean the holder of any Mortgage.

"**Non-Disturbance Agreement**" shall mean a subordination, non-disturbance and attornment agreement in the form attached hereto as **Exhibit E**, with such changes thereto, upon which the parties may reasonably agree, acknowledging that changes agreed upon in subordination, non-disturbance and attornment agreements executed and delivered in connection with the Hotel on or after the date hereof shall be deemed reasonable.

"**Operating Accounts**" shall have the meaning set forth in Section 4.03.A.

"**Operating Loss**" shall mean a negative Operating Profit.

"**Operating Profit**" shall mean the excess of Gross Revenues over the following deductions ("**Deductions**") incurred by Manager, on behalf of Owner, in operating the Hotel:

1. the cost of sales, including, without limitation, compensation, fringe benefits, payroll taxes, ERISA-related liabilities, pension-fund withdrawal liabilities, and other costs related to Hotel employees (the forgoing costs shall include, the allocable portion of the salary and other employee costs of any personnel assigned to a "cluster" of hotels which includes the Hotel);

2. departmental expenses incurred at departments within the Hotel; administrative and general expenses; the cost of marketing incurred by the Hotel; advertising and business promotion incurred by the Hotel; heat, light, and power; computer line charges; and routine repairs, maintenance and minor alterations treated as Deductions under Section 5.01;

3. the cost of Inventories and Fixed Asset Supplies consumed in the operation of the Hotel;

4. a reasonable reserve for uncollectible accounts receivable as reasonably determined by Manager;

5. all costs and fees of independent professionals or other third parties who are retained by Manager to perform services required or permitted hereunder;

6. all costs and fees of technical consultants, professionals and operational experts who are retained or employed by Manager, and its Affiliates for specialized services in connection with matters directly involving the Hotel (including,

without limitation, quality assurance inspectors, personnel providing architectural, technical or procurement services for the Hotel, tax consultants, and personnel providing legal services) and the cost of attendance by employees of the Hotel at training and manpower development programs sponsored by Manager or its Affiliates;

7. the Base Management Fee, Accounting Fee and System Service Fee;

8. insurance costs and expenses for the insurance coverage described in Section 6.01;

9. taxes, if any, payable by or assessed against Manager related to this Agreement or to Manager's operation of the Hotel (exclusive of Manager's income taxes or franchise taxes) and all Impositions;

10. the amount of any transfers into the FF&E Reserve required pursuant to Section 5.02;

11. all the costs and expenses paid by Manager pursuant to the Franchise Agreement including, but not limited to, franchise fees, advertising, chain services, insurance, etc.; provided, however, any initial licensing fees or capital expenditures necessary for compliance with the Franchise Agreement shall not be a Deduction from Gross Revenues for purposes of the calculation of Operating Profit but shall be the sole cost and expense of Owner; and

12. such other costs and expenses incurred by Manager (either at the Hotel or elsewhere) as are specifically provided for elsewhere in this Agreement or are otherwise reasonably necessary for the proper and efficient operation of the Hotel.

The term "Deductions" shall not include: (a) debt service-payments pursuant to any Mortgage on the Hotel; (b) payments pursuant to capital leases of equipment or other forms of capital financing obtained for the FF&E located in or connected with the Hotel, unless Manager has previously given its written consent to such equipment lease and/or financing; (c) rental payments pursuant to any ground lease of the Site except as may be set forth on Schedule 1; (d) any expenditures by Owners in the acquisition or conversion of the Hotel, if applicable; (e) the cost of external (third party) audits of Hotel operations and/or with respect to the Owner entity itself; nor (f) other recurring and non-recurring ownership costs, such as Owner's entity administration and servicing costs; nor (g) any expenditures included within the definition of Owner's Priority or Owner's Additional Capital Investment; nor (h) any fees, assessments or costs under any reciprocal easements or cost-sharing agreements that do not relate to the operation of the Hotel. All of the foregoing items listed in this paragraph shall be paid by Owner from its own funds.

"**Owner**" shall have the meaning ascribed to it in Schedule 1 or shall mean any successor or permitted assign, as applicable.

"**Owner's Additional Capital Investment**" shall mean a dollar amount equal to the cumulative total of the following, to the extent funded by Owner after the Effective Date:

(i) Capital Expenditures funded by Owner, including those required under Section 5.03, (but excluding the cost of any civil or criminal proceedings or any Special Capital Expenditures funded from the FF&E Reserve) and Section 11.08;

(ii) The capital cost of alterations and improvements to the Hotel contemplated by Section 5.03.E as specifically agreed upon by the parties by amendment to this Agreement;

(iii) The cost to Owner to restore the Hotel following a casualty or condemnation loss in excess of insurance or condemnation proceeds paid to Owner or which would reasonably have been paid to Owner had the insurance required by this Agreement been procured;

(iv) Special Assessments or Impact Fees paid by Owner as contemplated by Section 7.01.B.2 and Section 7.01.B.3; and

(v) Fundings by Owner of FF&E Reserve deficits in accordance with Section 5.02.E. hereof.

"**Owner's Priority**" shall mean with respect to each Fiscal Year (or prorated for any partial Fiscal Year) a dollar amount equal to eleven percent (11%) of the sum of (1) the dollar amount shown as "Owner's Total Capital Investment" on Schedule 1, and (2) Owner's Additional Capital Investment, if any.

"**Owner's Software**" shall have the meaning ascribed to it in Section 11.11.E.

"**Performance Termination Period**" shall have the meaning ascribed to it in Schedule 1.

"**Person**" means an individual (and the heirs, executors, administrators, or other legal representatives of an individual), a limited liability company, partnership, a corporation, a government or any department or agency thereof, a trustee, a trust and any unincorporated organization.

"**Prime Lessor**" shall mean the ground lessor under the Ground Lease, if any, and is identified, if there is a Ground Lease, on Schedule 1.

"**Prime Lessee**" shall mean the ground lessee under the Ground Lease, if any, and is identified, if there is a Ground Lease, on Schedule 1. In the event there is a Ground Lease, the Prime Lessee is also the landlord under the TRS Lease Agreement.

"**Prime Rate**" shall mean the "prime rate" of interest announced from time to time by The Wall Street Journal.

"**Proposed Annual Operating Budget**" shall have the meaning described to it in Section 4.04.

"**Qualified Lender**" shall mean any recognized third party institutional lender such as any federally insured commercial or savings bank, national banking association, savings and loan association, investment banking firm, commercial finance company, lender that is otherwise a third party institutional lender that originates loans for securitization (and any successor real estate mortgage investment conduit or financial asset securitization investment trust), and other similar lending institution that is a holder of a Secured Loan that is a Qualified Loan.

"**Qualified Loan**" means any Secured Loan the proceeds of which are used to acquire or finance the Hotel and for no other purpose, and which meets the following requirements:

(a) the maximum principal amount secured, as of the date the Secured Loan is incurred, when added to the current principal balance of all existing Secured Loans does not exceed seventy-five percent (75%) of the Fair Market Value of the Hotel on such date; and

(b) the ratio of Operating Profit for the twelve (12) full Accounting Periods immediately preceding the date the Secured Loan is incurred to the total annual debt service on all Secured Loans is equal to or greater than one and three tenths (1.3) to one (1).

Notwithstanding anything herein to the contrary, "Qualified Loan" shall include any Secured Loan which is deemed to be a Qualified Loan pursuant to Section 8.03 hereof (i.e., any Secured Loan with respect to which a Non-Disturbance Agreement has been executed by the lender thereunder, provided that the lender thereunder is a party that is the type of entity described in the definition of Qualified Lender), regardless of whether or not the conditions set forth above in this definition are satisfied with respect to such Secured Loan.

"**Renewal Terms**" shall have the meaning ascribed to it in Section 2.01 and Schedule 1.

"**Revenue Data Publication**" shall mean Smith's STAR Report, a monthly publication distributed by Smith Travel Research, Inc. of Gallatin, Tennessee, or an alternative source, reasonably satisfactory to both parties, of data regarding the Revenue Per Available Room of hotels in the general trade area of the Hotel. If such Smith's STAR Report is discontinued in the future, or ceases (in the reasonable opinion of either Owner or Manager) to be a satisfactory source of data regarding the Revenue Per Available Room of various hotels in the general trade area of the Hotel, Owner and

Manager shall select an alternative source for such data, and any failure to reach agreement on such alternative source shall be referred to the Expert.

"**Revenue Index**" shall mean that fraction that is equal to (a) the Revenue Per Available Room for the Hotel divided by (b) the average Revenue Per Available Room for the hotels in the Competitive Set, as set forth in the Revenue Data Publication.

"**Revenue Index Threshold**" shall mean the number shown in Schedule 1 attached hereto and made a part hereof. However, if the entry of a new hotel into the Competitive Set (or the removal of a hotel from the Competitive Set) causes significant variations in the Revenue Index that do not reflect the Hotel's true position in the relevant market, appropriate adjustments shall be made to the Revenue Index Threshold by mutual consent of Owner and Manager. If the parties fail to reach agreement on the appropriate adjustment, such matter shall be referred to the Expert.

"**Revenue Per Available Room**" shall mean (i) the term "revenue per available room" as defined by the Revenue Data Publication, or (ii) if the Revenue Data Publication is no longer being used (as more particularly set forth in the definition of "Revenue Data Publication"), the aggregate gross room revenues of the hotel in question for a given period of time divided by the total room nights for such period. If clause (ii) of the preceding sentence is being used, a "room" shall be an available hotel guestroom that is keyed as a single unit.

"**Sale of the Hotel**" shall mean any sale, assignment, transfer or other disposition, for value or otherwise, voluntary or involuntary, of the leasehold title to the Site and/or fee simple title to the Hotel. For purposes of this Agreement, a Sale of the Hotel shall also include: (i) a lease (or sublease) or an assignment of Owner's leasehold interest in the Site of all or substantially all of the Hotel or Site; or (ii) any sale, assignment, transfer or other disposition, for value or otherwise, voluntary or involuntary, in a single transaction or a series of transactions, of the controlling interest in Owner. The phrase "controlling interest," as used in the preceding sentence, shall mean either: (x) the right to exercise, directly or indirectly, more than fifty percent (50%) of the voting rights attributable to the shares of Owner (through ownership of such shares or by contract); or (y) the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of Owner.

"**Secured Loan**" means (i) any loan secured by a Mortgage encumbering the Hotel or all or any part of Owner's or Prime Lessee's or Fee Owner's interest therein or the interest in any such entity or its parent provided such interests are offered as additional collateral in connection with a Mortgage loan; and (ii) all amendments, modifications, supplements and extensions thereto, provided that in all events, the lender under such loan is a party that is the type of entity described in the definition of Qualified Lender.

"**Site**" shall have the meaning ascribed to it in Section A of the Recitals.

"**Software**" shall mean all computer software and accompanying documentation (including all future upgrades, enhancements, additions, substitutions and modifications thereof), other than computer software which is generally commercially available, and the Owner's Software as defined in Section 11.11E, which are used by Manager in connection with the property management system, the reservation system and all future electronic systems developed by Manager for use in the Hotel.

"**Special Capital Expenditures**" shall mean certain expenditures which are within the category of Capital Expenditures, as defined in this Agreement, but which will be funded from the FF&E Reserve (pursuant to Section 5.02), rather than pursuant to the provisions of Section 5.03. Special Capital Expenditures consist of the following types of expenditures: exterior and interior repainting; resurfacing building walls, floors and roofs; resurfacing parking areas; replacing folding walls; and miscellaneous similar expenditures but which are not major repairs, decorations, improvements, renewals or replacements to the Hotel's building's structure, its mechanical, electrical, heating, ventilating, air conditioning, plumbing or vertical transportation systems.

"**Submissions Period**" shall have the meaning ascribed to it in Section 11.21.

"**System Services**" shall have the meaning ascribed to it in Section 1.03.

"**System Services Fee**" shall have the meaning ascribed to it in Schedule 1.

"**TRS Lease Agreement**" shall have the meaning ascribed to it in Schedule 1.

"**Term**" shall have the meaning ascribed to it in Section 2.01.

"**Termination**" shall mean the expiration or sooner cessation of this Agreement.

"**Termination Fee**" shall have the meaning ascribed to it in Schedule 1.

"**Trade Names**" shall have the meaning ascribed to it in Section 11.12.

"**Uniform System of Accounts**" shall mean the Uniform System of Accounts for the Lodging Industry, Ninth Revised Edition, 1996, as published by the Educational Institute of the American Hotel & Motel Association, from time to time, and as modified by appreciable provisions of this Agreement.

"**WARN Act**" shall mean the "Worker Adjustment and Retraining Notification Act," 29 U.S.C. 2101 et seq.

"**Working Capital**" shall mean funds that are used in the day-to-day operation of the business of the Hotel, including, without limitation, amounts sufficient for the maintenance of change and petty cash funds, amounts deposited in operating bank accounts, receivables, amounts deposited in payroll accounts, prepaid expenses and funds required to maintain Inventories, less accounts payable and accrued current liabilities.

IN WITNESS WHEREOF, the parties hereto have caused the Agreement to be executed under seal as of the day and year first written above.

[signatures begin on the top of the next page]

OWNER:

By: _____
Name: Thomas J. Baltimore, Jr.
Title: President

MANAGER:

WHITE LODGING SERVICES CORPORATION,
an Indiana corporation

By: _____
Name: _____
Title: _____

EXHIBIT A
Legal Description of the Site

EXHIBIT B
Form of Memorandum of Management Agreement

EXHIBIT C
Form of Ground Lessor Non-Disturbance Agreement

EXHIBIT C-1
Ground Lessor Estoppel Certificate [if applicable]

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EXHIBIT D
Form of Owner's Agreement

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EXHIBIT E
Form of Non-Disturbance Agreement

Brand and Location of Hotel
Property No.

SCHEDULE 1

HOTEL SPECIFIC DATA

1. Effective Date: , 200

2. The Parties:

a. Owner: , a

Address for Notices:

c/o RLJ Development, LLC
6903 Rockledge Drive, Suite 910
Bethesda, MD 20817
Attn: Thomas J. Baltimore, Jr.
Phone: 301-896-0205
Fax: 301-896-0203

With a copy to:

Arent Fox PLLC
1050 Connecticut Avenue, N.W.
Washington, D.C. 20036-5339
Attn: Gerard Leval, Esq.
Phone: 202-857-6198
Fax: 202-857-6395

b. Manager: White Lodging Services Corporation, an Indiana corporation.

Address for Notices:

Deno Yiankes
1000 East 80th Place, Suite 600 North
Merrillville, Indiana 46410
Fax: (219) 685-6114

With a copy to:

Carol Ann Bowman, Esq.
1000 East 80th Place, Suite 700 North
Merrillville, Indiana 46410
Fax: (219) 680-4226

c. Fee Owner/Prime Lessee: , a .

d. Prime Lessor: , a .

3. Description of Hotel: That certain fee simple/leasehold interest in the land and hotel known as the " ", located at , , (the "Site"), containing guest rooms, a lobby, meeting rooms, administrative offices, parking and certain amenities and related facilities located on the Site, including the following:

a. Number of Guest Rooms:

b. Other Improvements/Amenities:

c. Ground Lease: [None/Dated , by and between Prime Lessor and Prime Lessee

d. TRS Lease Agreement: that certain lease agreement of even date herewith between Fee Owner/Prime Lessee as landlord, and Owner as lessee pursuant to which Owner leases the Hotel.

4. Franchise Description:

a. Franchise Agreement: Franchise Agreement dated , 200

b. Franchisor: , a

c. Hotel Brand: , a [full service/select service] Hotel.

5. System Services:

a. Computer Services covered by the System Services Fee: Manager's costs related to certain hardware and software support services, which initially shall include by way of example, the following:

- Costs of Licenses for Financial/Payroll/Benefits/Procurement System
- Costs related to Payroll and Benefits for help desk support
- Costs of Manager's modems and trunks for dial-up access
- Costs of Professional Services for Financial/Payroll/Benefits/Procurement System
- Costs of Maintenance for Manager's Network Hardware
- Costs of Maintenance for Manager's Financial/Payroll/Benefits/Procurement System software
- Costs of Hardware to Manager for data storage.

b. Systems Services Fee: ($) per Accounting Period, adjusted each Fiscal Year, beginning with the second full Fiscal Year of the Term, to reflect any actual cost increases to Manager, which increases shall be applied pro rata to all hotels being offered System Services.

6. Accounting Services:

a. Accounting Fee: ($) per Accounting Period, adjusted each Fiscal Year to account for positive increases, if any in CPI occurring after the Effective Date. Such adjustment shall be made by multiplying the Accounting Fee by a fraction, the numerator of which is the CPI published for the period that includes the month immediately preceding the Fiscal Year for which such adjustment is being made, and the denominator of which is the CPI published for the period that includes the month immediately preceding the month in which the first full Fiscal Year occurs.

7. Expiration Date of the Initial Term: The expiration of the twentieth (20^{th}) full Fiscal Year following the Effective Date.

8. Renewal Term(s): Two (2) Renewal Terms; ten (10) years each.

9. Performance Termination Period. Any two (2) consecutive Fiscal Years, [not including any period of time within the first two (2) full Fiscal Years] elapsing after the Effective Date. **[bracketed clause to be included in New Hotel Management Agreements only]**

10. Base Management Fee: Three and five tenths percent (3.5%) of Gross Revenues as further defined in Section 13.01.

11. Incentive Management Fee: Fifteen percent (15%) of Available Cash Flow as further defined in Section 13.01.

12. Owner's Total Capital Investment: ($)**[the Allocable Price applicable to the Hotel]**, together with all reasonable closing and financing costs and the allocable portion of the one-time payment from Owner to Manager made as of the date hereof (all to be finally calculated by the parties not later than sixty (60) days following the date hereof).

13. Revenue Index Threshold: Ninety-five percent (95%). [as to Hotels #8, #9 and #87, Ninety percent (90%)]

14. Competitive Set: .

15. Initial Working Capital: $ [**$500 per available room for select service and $1,000 per available room for full service and urban properties**]

16. Initial Accounting Period Funding Obligation applicable to the FF&E Reserve: [With respect to Hotels having opened for business prior to 2004]: Four percent (4%) of Gross Revenues for each Accounting Period provided that the amount shall be a greater amount if required under the Franchise Agreement or under a Qualified Loan.
[With respect to Hotels having opened in 2004 or subsequently, in accordance with a ramp up to be negotiated with the Franchisor of not less than]: Two percent (2%), three percent (3%) and four percent (4%) of Gross Revenues for each Accounting Period in the first, second, and third Fiscal Years respectively provided that the amount shall be a greater amount if required under the Franchise Agreement or under a Qualified Loan.

17. Initial Contribution to the FF&E Reserve: An amount equal to one month's FF&E Reserve contribution.

18. Termination Fee: An amount equal to two and one half times the actual Base Management Fees and Incentive Management Fees earned by Manager in the Fiscal Year preceding the Fiscal Year in which the Termination occurred. In the event the Termination which has given rise to the obligation to pay the Termination Fee occurs prior to the expiration of the first full Fiscal Year, the Base Management Fees and Incentive Management Fees used for such calculation will be determined by using the Gross Revenue generated at the Hotel in the twelve calendar months elapsing just prior to the Effective Date hereunder. **[as to any Hotel Under Construction**: In the event the Termination which has given rise to the obligation to pay the Termination Fee occurs prior to the expiration of the first full Fiscal Year, the Termination Fee shall be $]. In no event shall any Termination Fee be due in the event of a Performance Termination.

19. Owner's Election regarding Insurance: Owner elects that as of the Effective Date (a) [Owner/Manager] shall procure and maintain the insurance required under Section

6.01.A and (b) [Owner/Manager] shall procure and maintain the insurance required under Section 6.01.B.

20. Ground Lease Provisions. [applicable only with respect to Hotels which have Ground Leases]

A. Prime Lessee holds leasehold title to the Site pursuant to the Ground Lease. Owner shall, throughout the Term, comply with the terms of the Ground Lease and ensure that the terms of the Ground Lease remain in full force and effect. Owner shall promptly notify Manager of any breach or default by any party to the Ground Lease and shall promptly provide Manager with copies of all notices sent or received by Prime Lessee or Owner under the Ground Lease. Owner shall not, without Manager's prior approval, permit any modification or amendment to the Ground Lease that may have the effect of adversely impacting the fees payable to Manager hereunder, or that may in other ways materially and adversely affect the Hotel or Manager's management or operation of the Hotel. Owner shall exert good faith efforts to either amend the Ground Lease or enter into a new agreement among Prime Lessee, Manager and the Prime Lessor as ground lessor under the Ground Lease in order to provide Manager with (i) notice of any default or breach of the terms of the Ground Lease by Prime Lessee or Owner and (ii) the right to cure any such default or breach by Prime Lessee, in addition to any cure rights that Prime Lessee may have under the Ground Lease (provided that any costs incurred by Manager as a result of such cure shall be borne solely by Owner, and shall not be Deductions).

B. Owner shall exert all commercially reasonable good faith efforts to obtain from the Prime Lessor as ground lessor under the Ground Lease (1) a non-disturbance agreement in favor of Manager in the form attached as **Exhibit C**, and (2) an estoppel certificate in favor of Manager in the form attached as **Exhibit C-1**. Owner shall not be released from its obligation to exert all commercially reasonable good faith efforts to obtain the non-disturbance agreement and estoppel certificate from ground lessor if as of the Effective Date, Owner has not yet received either the agreement or estoppel certificate.

C. The Ground Lease rental payments payable under the Ground Lease shall be paid from Gross Revenues as a Deduction.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Registration Statement on Form S-11 of RLJ Lodging Trust of our report dated March 14, 2011, relating to the combined consolidated financial statements and financial statement schedule of The RLJ Predecessor and our report dated February 2, 2011 relating to the consolidated balance sheet of RLJ Lodging Trust, which appear in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
April 13, 2011

Exhibit 23.4

CONSENT TO BE NAMED AS A TRUSTEE NOMINEE

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned hereby consents to being named in the registration statement on Form S-11 (Registration No. 333-172011) and in all subsequent amendments and post-effective amendments or supplements thereto and in any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act (the "Registration Statement") of RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), as an individual to become a trustee of the Company and to the inclusion of his or her biographical information in the Registration Statement.

/s/ EVAN BAYH

Name: Evan Bayh

Dated: April 11, 2011

Exhibit 23.5

CONSENT TO BE NAMED AS A TRUSTEE NOMINEE

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned hereby consents to being named in the registration statement on Form S-11 (Registration No. 333-172011) and in all subsequent amendments and post-effective amendments or supplements thereto and in any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act (the "Registration Statement") of RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), as an individual to become a trustee of the Company and to the inclusion of his or her biographical information in the Registration Statement.

/s/ NATHANIEL A. DAVIS

Name: Nathaniel A. Davis

Dated: April 8, 2011

Exhibit 23.6

CONSENT TO BE NAMED AS A TRUSTEE NOMINEE

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned hereby consents to being named in the registration statement on Form S-11 (Registration No. 333-172011) and in all subsequent amendments and post-effective amendments or supplements thereto and in any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act (the "Registration Statement") of RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), as an individual to become a trustee of the Company and to the inclusion of his or her biographical information in the Registration Statement.

/s/ ROBERT M. LA FORGIA

Name: Robert M. La Forgia

Dated: April 8, 2011

Exhibit 23.7

CONSENT TO BE NAMED AS A TRUSTEE NOMINEE

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned hereby consents to being named in the registration statement on Form S-11 (Registration No. 333-172011) and in all subsequent amendments and post-effective amendments or supplements thereto and in any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act (the "Registration Statement") of RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), as an individual to become a trustee of the Company and to the inclusion of his or her biographical information in the Registration Statement.

/s/ GLENDA G. MCNEAL

Name: Glenda G. McNeal

Dated: April 8, 2011

Exhibit 23.8

CONSENT TO BE NAMED AS A TRUSTEE NOMINEE

Pursuant to Rule 438 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), the undersigned hereby consents to being named in the registration statement on Form S-11 (Registration No. 333-172011) and in all subsequent amendments and post-effective amendments or supplements thereto and in any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act (the "Registration Statement") of RLJ Lodging Trust, a Maryland real estate investment trust (the "Company"), as an individual to become a trustee of the Company and to the inclusion of his or her biographical information in the Registration Statement.

/s/ JOSEPH RYAN
Name: Joseph Ryan

Dated: April 12, 2011

Hogan Lovells US LLP
Columbia Square
555 Thirteenth Street, NW
Washington, DC 20004
T +1 202 637 5600
F +1 202 637 5910

April 13, 2011

BY EDGAR AND OVERNIGHT MAIL

Mr. Michael McTiernan
Ms. Folake K. Ayoola
Division of Corporation Finance
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: RLJ Lodging Trust
Amendment No. 1 to Registration Statement on Form S-11
Filed March 15, 2011
File No. 333-172011

Dear Mr. McTiernan:

This letter is submitted on behalf of RLJ Lodging Trust (the "***Company***") in response to comments from the staff of the Division of Corporation Finance (the "***Staff***") of the Securities and Exchange Commission (the "***Commission***") in a letter dated April 4, 2011 (the "***Comment Letter***") with respect to the Company's Amendment No. 1 to Registration Statement on Form S-11 (File No. 333-172011) filed with the Commission on March 15, 2011 ("***Amendment No. 1***"). The Company is concurrently filing Amendment No. 2 to the Registration Statement ("***Amendment No. 2***"), which includes changes in response to the Staff's comments. We have enclosed with this letter a marked copy of Amendment No. 2, which was filed today by the Company via EDGAR, reflecting all changes to the Registration Statement since Amendment No.1.

For your convenience, the Staff's numbered comments set forth in the Comment Letter have been reproduced in italics herein with responses immediately following each comment. Unless otherwise indicated, page references in the reproductions of the Staff's comments refer to Amendment No. 1, and page references in the responses refer to Amendment No. 2. Defined terms used herein but not otherwise defined herein have the meanings given to them in Amendment No. 2.

Page ii

1. *We note your response to comment 10 of our comment letter dated March 1, 2011. Please revise page ii to disclose that the competitive set is determined by you and the management company. In addition, if accurate, please revise to clarify that the penetration index does not measure your relative share of any particular lodging market, but rather the relative revenue per room generated by each of your properties as compared to the competitive set.*

Response to Comment No. 1

In response to the Staff's comment, the Company has inserted disclosure on page ii of Amendment No. 2 under the heading "Table of Contents" to clarify that a hotel's competitive set is selected by the Company and the third-party manager of such hotel. The Company also has inserted disclosure on page 62 of Amendment No. 2 to clarify that the RevPAR penetration index is used as an indicator of a hotel's market share in relation to such hotel's competitive set and is not necessarily reflective of a hotel's relative share of any particular lodging market. The revised disclosure on page 62 is consistent with the disclosure on page 25 under "*Risk Factors—Risks Related to Our Business and Properties—The RevPAR penetration index may not accurately reflect our initial hotels' respective market shares.*"

Competitive Strength, page 3

2. *We note your response to comment 5 of our comment letter dated March 1, 2011. Please advise us how investors in Fund II and Fund III are apprised of the performance of those funds. In addition, please advise us whether Fund II or Fund III have suffered any significant adverse business developments, such as a default on indebtedness or a property foreclosure. We may have additional comments.*

Response to Comment No. 2

The Company acknowledges the second sentence of the Staff's comment and respectfully submits that investors in Fund II and Fund III receive quarterly reports to apprise them of the performance of each of their funds.

The Company notes that Fund II primarily invested in hotels shortly prior to the economic downturn, and like virtually all other hotel companies, has suffered adverse business developments. The Company notes that it has disclosed on page 65 that the Company recorded an impairment charge totaling $98.4 million, and on page 73 that the Company recorded an impairment charge of $21.5 million, for 22 of its hotels, all of which currently are owned by Fund II, during the years ended December 31, 2009 and 2008, respectively. In addition, on page F-43, the Company has disclosed that in February 2010, Fund II received a notice of event of default for failure to

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make the required monthly payment on its mortgage loan secured by the New York LaGuardia Airport Marriott, and disclosed on pages ii, iii, 58, 66, F-7, F-11 that this property will be transferred to a third party no later than September 14, 2011.

The Company submits that all of the hotels owned by Fund III were acquired during the period between the middle of 2008 and March 2011, and that none of the hotels owned by Fund III have suffered any adverse business developments during the limited time in which such hotels have been owned by Fund III.

Other Data, page 14

3. *Please provide more detailed disclosure about why the specific adjustments you make to FFO and EBITDA facilitate operating performance comparability.*

Response to Comment No. 3

In response to the Staff's comment, the Company has revised footnote (1) on page 15, footnote (1) on page 59 and the disclosure on page 74 to clarify that it adjusts FFO for impairment losses because they are non-cash expenses that are generally non-recurring in nature and are not reflective of the Company's operating performance for comparability purposes. Similarly, the Company has revised footnote (2) on page 15 and footnote (2) on page 59 to clarify that it adjusts EBITDA for transaction and pursuit costs (because those costs are associated with the Company's hotel acquisition activities), which do not reflect on the operating performance of the Company's in-place portfolio. The Company believes that other hotel REITs make similar adjustments to FFO and EBITDA and that such adjustments are consistent with general industry practice. Furthermore, the Company believes that such adjustments provide investors with a greater ability to compare the Company's operating performance with that of other public lodging companies.

Because we will issue a significant number of common shares..., page 46

4. *Please clearly disclose the number of shares, including shares underlying OP units, that will be issued in the formation transaction but will not be subject to lock-up agreements.*

Response to Comment No. 4

The Company acknowledges the Staff's comment and notes that the Company currently expects that substantially all of the common shares and OP units to be issued in the formation transactions will be subject to lock-up agreements. The Company represents that it will provide this information in the amendment to its Registration Statement on Form S-11 that includes the bona fide pricing range. Because the number of common shares and OP units to be issued in the formation transactions will depend on the midpoint of the bona fide price range per share of the Company's offering set forth on the cover page of the preliminary prospectus and in the final prospectus, the Company expects to include this and other pricing-dependent information in the preliminary prospectus that is

delivered to prospective investors. Accordingly, the Company has included language and placeholders on page 46 that contemplates the later inclusion of these numbers. In addition, in response to the Staff's comment, the Company has clarified the disclosure on page 46 to show the total number of common shares and OP units that will be issued in the formation transactions that will be subject to lock-up agreements as a percentage of all common shares and OP units to be outstanding after completion of the Company's offering and its formation transactions.

Distribution Policy, page 51

5. *Please advise us why you believe it is appropriate to add back transaction and pursuit costs to estimated cash available for distribution.*

Response to Comment No. 5

In response to the Staff's comment, the Company respectfully submits that its determination to add back transaction and pursuit costs is appropriate in light of the express assumptions set forth in the disclosure on pages 51 and 53. In particular, the disclosure on page 51 states that "[o]ur estimate [of cash available for distribution] also does not reflect the amount of cash to be used for investing activities for acquisition and other activities, other than recurring capital expenditures." Furthermore, the disclosure on page 53 states that "these calculations do not assume any changes to our operations or any acquisitions or dispositions (or any transaction and pursuit costs related thereto)…which would affect our cash flows…" Accordingly, because the Company's estimate of cash available for distribution assumes that there will be no hotel acquisition activities, the Company believes it is appropriate to add back transaction and pursuit costs, which are costs associated with the Company's successful and unsuccessful hotel acquisition activities. Accordingly, the Company believes that Adjusted EBITDA, which includes the add-back for transaction and pursuit costs, provides investors with a better estimate of cash available for distribution than EBITDA.

The U.S. Lodging Industry..., page 87

6. *We note your response to comment 15. Please provide us a more detailed analysis of why the disclosure of RevPAR projections throughout the prospectus that are attributed to Colliers PKF Hospitality Research do not require a consent pursuant to Rule 436. The disclosed projections appear to be a summary of information provided in a Colliers report and the projections appear to be based on Colliers expertise regarding the lodging industry.*

Response to Comment No. 6

In response to the Staff's comment, and based on a telephone conference we had with the Staff on April 7, 2011, the Company has inserted additional disclosure on page ii to clarify that the projections provided by Colliers PKF Hospitality Research have not been expertized and therefore Colliers PKF Hospitality Research will have no liability or responsibility whatsoever for any market data and industry forecasts and projections that are contained in the prospectus or otherwise disseminated in connection with the offer or sale of the Company's common shares.

Exhibit 8.1

7. *Please advise us whether the registrant's REIT status depends on the REIT status of the Subsidiary REITs. If so, please advise us why assumption (v) on page 5 of the opinion is appropriate.*

Response to Comment No. 7

The registrant's REIT status depends, in part, on the REIT status of the Subsidiary REITs, because if any Subsidiary REIT had previously failed to qualify as a REIT, then the registrant's REIT status may be in jeopardy. In response to the Staff's comment, we have revised the Exhibit 8.1 opinion to delete assumption (v) on page 5. The Company is supplementally delivering this revised Exhibit 8.1 opinion to the Staff, which is attached hereto as Exhibit A.

Omission of Information under Item 401(f)

The Company respectfully advises the Staff that it has omitted certain information from Amendment No. 2 relating to events specified in Item 401(f) of Regulation S-K, which, among other things, requires disclosure of the filing of a bankruptcy or insolvency proceeding by or against a corporation or business association of which a trustee nominee of the Company was an executive officer at or within two years before the time of such filing. The omitted information pertains to two of our trustee nominees, Robert M. La Forgia and Nathaniel A. Davis.

Robert La Forgia

Robert La Forgia, one of the Company's trustee nominees, was previously affiliated with The Atalon Group, a boutique turnaround management and advisory firm specializing in troubled real estate situations. The Atalon Group's business model involves assuming control of and restructuring distressed real estate projects through various methods, including the filing of bankruptcy proceedings. Between March 2008 and July 2010, Mr. La Forgia was an executive officer of Lake of Las Vegas JV and its related entities (the "***LLVJV Entities***"), which The Atalon Group assumed ownership of in January 2008 as part of an arrangement with the LLVJV Entities' former owners, lenders and administrative agent. In July 2008, The Atalon Group and the LLVJV Entities' lenders and administrative agent put the LLVJV Entities into bankruptcy as part of the restructuring of the Lake of Las Vegas project.

The Company respectfully submits that Mr. La Forgia's prior role, due to his affiliation with a firm specializing in troubled real estate situations, as an executive officer of entities that are involved in bankruptcy proceedings as part of their restructuring is not indicative of Mr. La Forgia's integrity or ability to serve as a director of a public company. Accordingly, the Company believes that it has properly omitted the foregoing information from Amendment No. 2 because the bankruptcy is not material to an investor's evaluation of the ability or integrity of Mr. La Forgia to serve as a trustee of the Company.

Nathaniel A. Davis

Nathaniel A. Davis, one of the Company's trustee nominees, served as president, chief operating officer and a member of the board of directors of XO Communications, a telecommunications service provider, from 2000 to 2003. XO Communications filed for Chapter 11 bankruptcy in June 2002 and emerged from bankruptcy in 2003. The Company respectfully submits that this event took place at the far end of the 10-year period for which reporting such events in required. Since then, Mr. Davis has played a key role in reputable and successful companies, formerly serving as business advisor to Columbia Capital and as chief executive officer, president, chief operating officer and a member of the board of directors of XM Satellite Radio and currently serving as business consultant to RANND Advisory Group. For these reasons, the Company respectfully submits that it has properly omitted Mr. Davis's involvement with

XO Communications from Amendment No. 2 because it believes Mr. Davis's role as an executive officer in a company that filed for bankruptcy in 2002 is not material to an investor's evaluation of Mr. Davis's integrity or ability to serve as a trustee of the Company.

Graphics and Logo

In connection with the Company's response to Comment No. 1 in its correspondence with the Staff dated March 15, 2011, the Company is supplementally delivering a copy of its proposed graphics and logo to be inserted on the cover of its prospectus.

Revolving Credit Facility

Since the Company's filing of Amendment No. 1 on March 15, 2011, the Company has received a commitment letter from affiliates of certain of its underwriters for a three-year, $300 million unsecured revolving credit facility. In connection with the Company's response to Comment No. 12 in its correspondence with the Staff dated March 15, 2011, the Company is supplementally delivering to the Staff a fully-executed copy of the commitment letter with respect to the revolving credit facility, which the Company expects to enter into concurrently with the closing of the offering.

* * * *

The Company respectfully believes that the proposed modifications to Amendment No. 2, and the supplemental information contained herein, are responsive to the Staff's comments. If you have any questions or would like further information concerning the Company's responses to your Comment Letter, please do not hesitate to contact me at (202) 637-5868.

Sincerely,

/s/ David W. Bonser
David W. Bonser

cc: Thomas J. Baltimore, Jr.
Leslie D. Hale

RLJ Lodging Trust
Edward F. Petrosky
Bartholomew A. Sheehan, III
Sidley Austin LLP
J. Warren Gorrell, Jr.
James E. Showen
Hogan Lovells US LLP

Exhibit A

Exhibit 8.1 Opinion

Exhibit 8.1

[·], 2011

Board of Trustees
RLJ Lodging Trust
3 Bethesda Metro Center
Suite 1000
Bethesda, MD 20814

Ladies and Gentlemen:

We are acting as counsel to RLJ Lodging Trust, a Maryland real estate investment trust (the "**Company**"), in connection with (i) its registration statement on Form S-11, as amended (file no. 333-172011) (the "**Registration Statement**," which includes the "**Prospectus**"), filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, relating to the proposed initial public offering of up to [Ÿ] common shares of beneficial interest (including [·] common shares of beneficial interest that may be purchased pursuant to the overallotment option), par value $0.01 per share, of the Company, and (ii) the series of transactions related to such initial public offering referred to collectively in the Prospectus as the "formation transactions" under the caption "Structure and Formation of Our Company — Formation Transactions," including, without limitation:

- the merger of RLJ Lodging Fund II, L.P. and RLJ Lodging Fund II (PF #1), L.P. (each a Delaware limited partnership and, collectively, "**Fund II**") with and into the Company, with the Company surviving (the "**Fund II Merger**"), on the terms and subject to the conditions set forth in that certain merger agreement by and among Fund II, the Company, and RLJ Capital Partners II, LLC, a Delaware limited liability company, dated February 1, 2011 (the "**Fund II Merger Agreement**"),

- the merger of RLJ Real Estate Fund III, L.P. and RLJ Real Estate Fund III (PF #1), L.P. (each a Delaware limited partnership and, collectively, "**Fund III**"), with and into the Company, with the Company surviving (the "**Fund III Merger**" and, collectively with the Fund II Merger, the "**Primary Mergers**"), on the terms and subject to the conditions set forth in that certain merger agreement by and among Fund III, the Company and RLJ Capital Partners III,

LLC, a Delaware limited liability company, dated February 1, 2011 (the "**Fund III Merger Agreement**" and, collectively with the Fund II Merger Agreement, the "**Fund Merger Agreements**"),

- immediately following the Primary Mergers, and as an integrated step in a single plan with the Primary Mergers, the merger of each of the subsidiary real estate investment trusts of Fund II, RLJ Lodging II REIT, LLC and RLJ Lodging II REIT (PF #1), LLC (each, a Delaware limited liability company that has elected to be taxed as a "real estate investment trust" (a "**REIT**") within the meaning of Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the "**Code**"), and, collectively, the "**Fund II REITs**"), and certain of the subsidiary REITs of Fund III, RLJ Real Estate III REIT, LLC and RLJ Real Estate III REIT (PF #1), LLC (each, a Delaware limited liability company that has elected to be taxed as a REIT for U.S. federal income tax purposes, collectively, the "**Fund III REITs,**" and, collectively with the Fund II REITs, the "**Old REITs**"), with and into the Company, with the Company surviving each of the mergers (each, a "**Secondary Merger**," and, collectively, the "**Secondary Mergers**," and the Secondary Mergers together with the Primary Mergers, the "**Integrated Mergers**"), on the terms and subject to the conditions set forth in that certain merger agreement by and among the Company and the Fund II REITs, dated [·], 2011 (the "**Fund II REIT Merger**

Agreement"), and in that certain merger agreement by and among the Company and the Fund III REITs, dated [·], 2011 (the "**Fund III REIT Merger Agreement**" and, collectively with the Fund II REIT Merger Agreement, the "**REIT Merger Agreements,**" and, collectively with the Fund Merger Agreements, the "**Merger Agreements**"); and

· as a result of the Secondary Mergers, the cancellation, for no consideration, of the membership interests acquired by the Company in each of the Old REITs, and the cancellation, in exchange for cash in an amount equal to the current applicable redemption price, of all of the preferred units of each Old REIT.

In connection with the filing of the Registration Statement, we have been asked to provide you with this letter regarding the Company's qualification as a REIT for U.S. federal income tax purposes and certain other U.S. federal income tax matters. Capitalized terms used herein, unless otherwise defined in the body of this letter, shall have the meanings set forth in Appendix A.

Bases for Opinions

The opinions set forth in this letter are based on relevant current provisions of the Code, Treasury Regulations thereunder (including proposed and temporary Treasury Regulations), and interpretations of the foregoing as expressed in court decisions, applicable legislative history, and the administrative rulings and practices of the Internal Revenue Service (the "**IRS**"), including its practices and policies in issuing private letter rulings, which are not binding on the IRS except with respect to a taxpayer that receives such a ruling, all as of the date hereof. These provisions and interpretations are subject to change by the IRS, Congress and the courts (as applicable),

which may or may not be retroactive in effect and that might result in material modifications of our opinions. Our opinions do not foreclose the possibility of a contrary determination by the IRS or a court of competent jurisdiction, or of a contrary position taken by the IRS or the Treasury Department in regulations or rulings issued in the future. In this regard, an opinion of counsel with respect to an issue represents counsel's best professional judgment with respect to the outcome on the merits with respect to such issue, if such issue were to be litigated, but an opinion is not binding on the IRS or the courts, and is not a guarantee that the IRS will not assert a contrary position with respect to such issue or that a court will not sustain such a position asserted by the IRS.

In rendering the following opinions, we have examined such statutes, regulations, records, agreements, certificates and other documents as we have considered necessary or appropriate as a basis for the opinions, including, but not limited to, the following documents (including all exhibits and schedules thereto) which we have, with your consent, relied upon (without any independent investigation or review thereof):

(1) the Registration Statement, including the Prospectus;

(2) each of the Merger Agreements;

(3) the Declaration of Trust of the Company, dated as of January 31, 2011, as amended through the date hereof (the "**Articles of Declaration of Trust**");

(4) the [amended and restated] agreement of limited partnership, dated [·], 2011, of RLJ Lodging Trust, L.P., a Delaware limited partnership ("**RLJ LP**");

(5) the Limited Liability Company Agreement of RLJ Lodging II REIT, LLC, dated April 6, 2006, and the First Amendment thereto, dated October 3, 2006, the Limited Liability Company Agreement of RLJ Lodging II REIT (PF #1), LLC, dated April 6, 2006, and the First Amendment thereto, dated October 3, 2006, the Limited Liability Company Agreement of RLJ Real Estate III REIT, LLC, dated July 27, 2007, and the First Amendment thereto, dated December 17, 2007, and the Limited Liability Company Agreement of RLJ Real Estate III REIT (PF #1), LLC, dated July 27, 2007, and the First Amendment thereto, dated December 17, 2007, all as amended through the date hereof;

(6) the Third Amended and Restated Limited Partnership Agreement of RLJ Lodging Fund II, L.P., dated January 15, 2007, the Second Amended and Restated Limited Partnership Agreement of RLJ Lodging Fund II (PF #1), L.P., dated January 15, 2007, the Second Amended and Restated Limited Partnership Agreement of RLJ Real Estate Fund III, L.P., dated April 3, 2009, and the Second Amended and Restated Limited Partnership Agreement of RLJ Real Estate Fund III (PF #1), L.P., dated April 3, 2009;

(7) the merger agreement dated [·], 2011 by and among RLJ Lodging Trust, L.P., a Delaware limited partnership, RLJ Lodging II Master, LLC, a Delaware limited liability company, and RLJ Real Estate III Master, LLC, a Delaware limited liability company;

(8) the Limited Liability Company Agreement of RLJ Lodging II Master, LLC, dated April 6, 2006, and the Limited Liability Company Agreement of RLJ Real Estate III Master, LLC, dated July 27, 2007;

(9) the Certificate of Incorporation of Lodgian Denver LLC, dated July 13, 2010, [the formation documents of Lodgian Buckhead, Inc., dated [·]], and the Amended and Restated Certificate of Formation of Service Center Associates, Inc., dated July 16, 2010;

(10) certain of the Leases; and

(11) such other documents as we deemed necessary or appropriate.

The documents referred to in clauses (1) through (11) above are referred to hereinafter as the "**Reviewed Documents**."

The opinions set forth in this letter are premised on, among other things, the written representations of the Company, RLJ LP, Fund II, Fund III and the Old REITs contained in a letter to us dated as of the date hereof (the "**Management Representation Letter**"). Although we have discussed the Management Representation Letter with the signatories thereto, for purposes of rendering our opinions, we have not made an independent investigation or audit of the facts set forth in the Reviewed Documents and the Management Representation Letter. We consequently have relied upon the representations and statements set forth in the Reviewed Documents and the Management Representation Letter and assumed that the information presented in such documents or otherwise furnished to us is accurate and complete in all material respects.

In this regard, we have assumed or obtained representations regarding (and, with your consent, are relying upon) the following:

(i) that (A) all of the representations and statements set forth in the Reviewed Documents and the Management Representation Letter are true, correct, and complete, (B) any representation or statement made as a belief or made "to the knowledge of" or similarly qualified is correct and accurate as if made without such qualification, and that such representation or statement will continue to be correct and accurate, without such qualification, (C) each of the Reviewed Documents that constitutes an agreement, or each agreement described in a

Reviewed Document or in the Management Representation Letter, is valid and binding in accordance with its terms, and (D) each of the obligations imposed by or described in the Reviewed Documents or in the Management Representation Letter, including, without limitation, the obligations imposed under the Articles of Declaration of Trust of the Company and the Limited Liability Company Agreements of each of the Old REITs, as amended, has been and will continue to be performed or satisfied in accordance with its terms;

(ii) the genuineness of all signatures, the proper execution of all documents, the authenticity of all documents submitted to us as originals, the conformity to originals of documents submitted to us as copies, and the authenticity of the originals from which any copies were made;

(iii) that any documents as to which we have reviewed only a form were or will be duly executed without material changes from the form reviewed by us;

(iv) that (A) each of the Primary Mergers and the Secondary Mergers will be consummated in accordance with the applicable Fund Merger Agreement or REIT Merger Agreement, respectively, and in accordance with, and will qualify as a merger under, applicable state law; and (B) each other transaction described as part of the "formation transactions" under the caption "Structure and Formation of Our Company — Formation Transactions" in the Prospectus will be consummated in accordance with the applicable transaction document;

(v) that, from and after the date of this letter, the Company will comply with its representation contained in the Management Representation Letter that it will utilize all appropriate "savings provisions" (including the provisions of Sections 856(c)(6), 856(c)(7), and 856(g) of the Code, and the provision included in Section 856(c)(4) of the Code (flush language) allowing for the disposal of assets within 30 days after the close of a calendar quarter, and all available deficiency dividend procedures) available to the Company under the Code in order to correct any violations of the applicable REIT qualification requirements of Sections 856 and 857 of the Code, to the full extent the remedies under such provisions are available, but only to the extent available.

Any material variation or difference in the facts from those set forth in the documents that we have reviewed and upon which we have relied (including, in particular, the Registration Statement, including the Prospectus, and the Management Representation Letter) may adversely affect the conclusions stated herein.

Opinions

Based upon, subject to, and limited by the assumptions and qualifications set forth herein (including those set forth below), we are of the opinion that:

(1) the Company has been organized in conformity with the requirements for qualification and taxation as REIT under the Code, and the Company's current organization and proposed method of operation (as described in the Registration Statement, including the Prospectus, and the Management Representation Letter), giving effect to the Integrated Mergers, will enable it to meet the requirements for qualification and taxation as a REIT under the Code for its taxable year ending December 31, 2011, and for future taxable years;

(2) commencing with the taxable year ending December 31, 2006, in the case of the Fund II REITS, and December 31, 2007, in the case of the Fund III REITs, each of the Old REITs has been organized and has operated in conformity with the requirements for qualification and taxation as a REIT under the Code;

(3) commencing with the taxable year ending December 31, 2006, in the case of Fund II, and December 31, 2007, in the case of Fund III, each of Fund II and Fund III has been since its formation, and continues to be, treated for U.S. federal income tax purposes as a partnership and not as a corporation or association taxable as a corporation; and

(4) the portions of the discussion in the Prospectus under the caption "Material U.S. Federal Income Tax Considerations" that describe provisions of applicable U.S. federal income tax law are correct in all material respects as of the date hereof.

* * * * *

The qualification and taxation of each of the Company and the Old REITs as a REIT depends in particular upon whether each of the Leases is respected as a lease for federal income tax purposes. If one or more Leases are not respected as leases for federal income tax purposes, the Company may fail to qualify as a REIT, or one or more of the Old REITs or the Subsidiary

REITs may be determined to have failed to qualify as a REIT in one or more taxable years. Following the Integrated Mergers, the failure of one or more of the Old REITs or the Subsidiary REITs to have qualified as a REIT in any year may cause the Company also to fail to qualify as a REIT unless certain requirements are satisfied. The determination of whether the Leases are leases for federal income tax purposes is highly dependent on specific facts and circumstances. In addition, for the rents payable under a Lease to qualify as "rents from real property" under the Code, the rental provisions of the Leases and the other terms thereof must conform with normal business practice and not be used as a means to base the rent paid on the income or profits of the lessees. In delivering the opinions set forth above relating to the qualification and taxation of each of the Company and the Old REITs as REITs under the Code, we expressly rely upon, among other things, the representations in the Management Representation Letter as to various factual matters with respect to the Leases, including representations as to the commercial reasonableness of the economic and other terms of the Leases at the times the Leases were originally entered into and subsequently renewed or extended (and taking into account for this purpose changes to the economic and other terms of the Leases pursuant to subsequent amendments), the intent and economic expectations of the parties to the Leases, the allocation of various economic risks between the parties to the Leases, taking into account all surrounding facts and circumstances, the conformity of the rental provisions and other terms of the Leases with normal business practice, the conduct of the parties to the Leases, and the conclusion that such terms are not being, and will not be, used as a means to base the rent paid on the income or profits of the Lessees. We express no opinion as to any of the economic terms of the Leases, the commercial reasonableness thereof, or whether the actual economic relationships created thereby are such that the Leases will be respected for federal income tax purposes or whether the rental and other terms of the Leases conform with normal business practice (and are not being used as a means to base the rent paid on the income or profits of the Lessees).

The Company's qualification and taxation as a REIT under the Code will depend upon the ability of the Company to meet on an ongoing basis (through actual quarterly and annual operating results, distribution levels, diversity of stock ownership and otherwise) the various qualification tests imposed under the Code, and upon the Company utilizing any and all appropriate "savings provisions" (including the provisions of Sections 856(c)(6), 856(c)(7), and 856(g) of the Code and the provision included in Section 856(c)(4) of the Code (flush language) allowing for the disposal of assets within 30 days after the close of a calendar quarter, and all available deficiency dividend procedures) available to the Company under the Code to correct violations of specified REIT qualification requirements of Sections 856 and 857 of the Code. Our opinions set forth above do not foreclose the possibility that the Company may have to utilize one or more of these "savings provisions" in the future, which could require the Company to pay an excise or penalty tax (which could be significant in amount) in order to maintain its REIT qualification. We have not undertaken to review the Company's compliance with these requirements on a continuing basis. Accordingly, no assurance can be given that the actual results of the Company's operations, the sources of its income, the nature of its assets, the level of its distributions to stockholders and the diversity of its stock ownership for any given taxable year will satisfy the requirements under the Code for qualification and taxation as a REIT.

This opinion letter addresses only the specific federal income tax matters set forth above and does not address any other federal, state, local or foreign tax issues.

This opinion letter has been prepared for your use in connection with the filing of the Registration Statement and speaks as of the date hereof. We assume no obligation by reason of this opinion letter or otherwise to advise you of any changes in our opinion subsequent to the delivery of this opinion letter. Except as provided in the next paragraph, this opinion letter may not be distributed, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

We hereby consent to the filing of this opinion letter as Exhibit 8.1 to the Registration Statement and to the reference to Hogan Lovells US LLP under the caption "Legal Matters" in the Prospectus. In giving this consent, however, we do not admit thereby that we are an "expert" within the meaning of the Securities Act of 1933, as amended.

Very truly yours,

DRAFT

HOGAN LOVELLS US LLP

Appendix A

Definitions

"**Hotel"** means each hotel in which the Company will have, after giving effect to the Integrated Mergers, or any Old REIT has had, before giving effect to the Integrated Mergers, a direct or indirect interest.

"Lease" means any real estate lease pursuant to which an Old REIT or the Company, directly or through a Subsidiary REIT and/or one or more Partnership Subsidiaries, leased or leases a Hotel or other Real Property to a Lessee, taking into account all subsequent amendments, renewals and/or extensions.

"Lessee" mean any TRS Lessee or any other party that leases one or more Hotels or other leased Real Property pursuant to a Lease.

"Master LLC" means either RLJ Lodging II Master, LLC or RLJ Real Estate III Master, LLC.

"Partnership Subsidiary" means any of RLJ LP and each Master LLC, partnership, limited liability company, or other entity treated as a partnership for federal income tax purposes or disregarded as a separate entity for federal income tax purposes in which either the Company, an Old REIT, or a Subsidiary REIT owns (or owned) an interest, either directly or through one or more other partnerships, limited liability companies or other entities treated as a partnership for federal income tax purposes or disregarded as a separate entity for federal income tax purposes (whether or not the interest is (or was) a controlling interest in, or otherwise represents (or represented) the ability to control or direct the operation of, such entity). Notwithstanding the foregoing, the term "Partnership Subsidiary" shall not in any way be deemed to include a TRS or subsidiaries thereof.

"Real Property" means real property, including interests in real property and interests in mortgages on real property.

"Subsidiary REIT" means any of Lodgian Denver LLC, Servico Centre Associates, Inc. and Lodgian Buckhead, Inc.

"TRS" means a "taxable REIT subsidiary," as described in Section 856(l) of the Code. Any entity taxable as a corporation in which a TRS of a REIT owns (x) securities possessing more than 35% of the total voting power of the outstanding securities of such entity or (y) securities having a value of more than 35% of the total value of the outstanding securities of such entity shall also be treated as a TRS of such REIT whether or not a separate election is made with respect to such other entity.

"TRS Lessee" means any lessee of a Hotel that is a TRS.