HERSHA HOSPITALITY TRUST
Form 10-K
March 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to _______________

Commission file number: 001-14765

HERSHA HOSPITALITY TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	251811499 (I.R.S. Employer Identification No.)
44 Hersha Drive, Harrisburg, PA (Address of Registrant's Principal Executive Offices)	17102 (Zip Code)

Registrant's telephone number, including area code: (717) 236-4400

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ Yes x No

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 definition 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	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). oYes x No

The aggregate market value of the outstanding Class A common shares held by nonaffiliates of the registrant, computed by reference to the closing sale price at which Class A common shares were last sold on June 30, 2010, was approximately $629.3 million.

As of March 2, 2011, the number of Class A common shares outstanding was 169,273,542 and there were no Class B common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed with the Commission not later than 120 days after the end of the fiscal year pursuant to Regulation 14A are incorporated herein by reference into Part III.

HERSHA HOSPITALITY TRUST
Table of Contents

Table of Contents

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Unless the context otherwise requires, references in this report to: (1) “we,” “us,” “our,” the “Company” and “Hersha” mean Hersha Hospitality Trust and its consolidated subsidiaries, including Hersha Hospitality Limited Partnership, taken as a whole; (2) “HHLP” and “our operating partnership” mean Hersha Hospitality Limited Partnership; and (3) “common shares” mean our Class A common shares of beneficial interest, $0.01 par value per share.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words, “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “may” a of similar import. Such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this report including, but not limited to those discussed in the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” that could cause actual results to differ. Statements regarding the following subjects are forward-looking by their nature:

- our business or investment strategy;
- our projected operating results;
- our distribution policy;
- our liquidity;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on our beliefs, assumptions and expectations, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Readers should not place undue reliance on forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

- general volatility of the capital markets and the market price of our common shares;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or the general economy;
- the degree and nature of our competition;
- financing risks, including the risk of leverage and the corresponding risk of default on our mortgage loans and other debt and potential inability to refinance or extend the maturity of existing indebtedness;
- the depth and duration of the current economic downturn;
- levels of spending in the business, travel and leisure industries, as well as consumer confidence;
- declines in occupancy, average daily rate and RevPAR and other hotel operating metrics;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
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financial condition of, and our relationships with, our joint venture partners, third-party property managers, franchisors and hospitality joint venture partners;

- the degree and nature of our competition;
- increased interest rates and operating costs;
- risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;
- risks associated with our development loan portfolio, including the ability of borrowers to repay outstanding principal and accrued interest at maturity;
- availability of and our ability to retain qualified personnel;
- our failure to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code;
- environmental uncertainties and risks related to natural disasters;
- changes in real estate and zoning laws and increases in real property tax rates; and
- the factors discussed in Item 1A of this report under the heading “Risk Factors” and in other reports we file with the Securities and Exchange Commission from time to time.

These factors are not necessarily all of the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors, many of which are beyond our control, also could harm our results, performance or achievements.

Table of Contents

All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

PART I

Item 1. Business

All brand names, trademarks and service marks appearing in this report are the property of their respective owners. This report may contain registered trademarks owned or licensed to companies other than us, including, but not limited to, Candlewood Suites®, Comfort Inn®, Courtyard® by Marriott®, Fairfield Inn®, Fairfield Inn® by Marriott®, Hampton Inn®, Hawthorne Suites®, Hilton®, Hilton Garden Inn®, Hilton Hotels®, Holiday Inn®, Holiday Inn Express®, Hyatt Summerfield Suites®, Hyatt Place®, Marriott®, Marriott Hotels & Resorts®, Residence Inn®, Residence Inn® by Marriott®, Springhill Suites® and Springhill Suites by Marriott®. None of the owners or licensees of any trademarks contained in this report or any of their respective present and future owners, subsidiaries, affiliates, officers, directors, agents or employees shall have any liability or responsibility for any financial statements or other financial information contained in this report.

OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the New York Stock Exchange under the symbol "HT." We invest primarily in institutional grade hotels in central business districts, primary suburban office markets and stable destination and secondary markets in the Northeastern United States and select markets on the West Coast. Our primary strategy is to continue to acquire high quality, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers to entry in the Northeastern United States and other markets with similar characteristics. We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax reporting purposes.

In addition to the direct acquisition of hotels, historically we have made investments in hotels through joint ventures with strategic partners or through equity contributions, secured mezzanine loans and land leases. Although we may invest in hotels through secured development loans and land leases, we do not expect to continue to originate any new secured mezzanine loans or enter into any new land leases as part of our hotel investment strategy.

We seek to identify acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our extensive due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value.

As of December 31, 2010, our portfolio consisted of 62 wholly owned limited and full service properties and interests in 15 limited and full service properties owned through joint venture investments. Of the 15 limited and full service properties owned through our investment in joint ventures, three are consolidated with us for financial reporting purposes. These 77 properties, with a total of 10,262 rooms, are located in Arizona, California, Connecticut, Delaware, District of Columbia, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island and Virginia and operate under leading brands, such as Candlewood Suites®, Comfort Inn®, Courtyard® by Marriott®, Fairfield Inn®, Fairfield Inn® by Marriott®, Hampton Inn®, Hawthorne Suites®, Hilton®, Hilton Garden Inn®, Hilton Hotels®, Holiday Inn®, Holiday Inn Express®, Hyatt Summerfield Suites®, Hyatt Place®, Marriott®, Marriott Hotels & Resorts®, Residence Inn®, Residence Inn® by Marriott®, Springhill Suites® and Springhill Suites by Marriott®. In addition, some of our hotels operate as independent boutique hotels.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership, for which we serve as general partner. As of December 31, 2010, we owned an approximate 95.8% partnership interest in our operating partnership.

Our wholly-owned hotels are managed by independent, third party qualified management companies, including Hersha Hospitality Management, L.P. (“HHMLP”), a private management company owned by certain of our affiliated trustees and executive officers and other unaffiliated third party investors. Third party qualified management companies, including HHMLP, manage the hotels that we own through joint venture interests. We lease our wholly-owned hotels to 44 New England Management Company (“44 New England”), our wholly-owned taxable REIT subsidiary (“TRS”). Each of the hotels that we own through a joint venture investment is leased to another TRS that is owned by the respective joint venture or an entity owned in part by 44 New England.

Table of Contents

Our principal executive office is located at 44 Hersha Drive, Harrisburg, Pennsylvania 17102. Our telephone number is (717) 236-4400. Our website address is www.hersha.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report.

AVAILABLE INFORMATION

We make available free of charge through our website (www.hersha.com) our code of ethics, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. The information available on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

INVESTMENT IN HOTEL PROPERTIES

Our operating strategy focuses on increasing hotel performance for our portfolio. The key elements of this strategy are:

- working together with our hotel management companies to increase occupancy levels and revenue per available room, or "RevPAR", through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and

- maximizing our earnings by managing costs and positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale, mid-scale and extended-stay lodging segment, which we believe can be expected to follow from improving economic conditions.

As of December 31, 2010, our portfolio included 62 wholly owned limited and full service properties, with a total of 7,686 rooms.

INVESTMENT IN JOINT VENTURES

In addition to the direct acquisition of hotels, we may make investments in hotels through joint ventures with strategic partners. We have historically identified acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. We are not actively pursuing additional joint venture investments.

As of December 31, 2010, we maintain ownership interests in 15 hotels with a total of 2,576 rooms through joint ventures with third parties. Of the 15 hotels owned through interests in joint ventures, 3 are consolidated for financial reporting purposes.

DEVELOPMENT LOANS

We take advantage of our relationships with hotel developers, including entities controlled by our officers or affiliated trustees, to identify development and renovation projects that may be attractive to us. While these developers have borne the risk of construction, we have historically invested in hotel development projects by providing secured mortgage or mezzanine financing to hotel developers. In many instances, we maintain a first right of refusal or right of first offer to purchase, at fair market value, the hotel for which we have provided development loan financing. We are not actively pursuing additional development loan investments.

As of December 31, 2010, we had an investment of $41.7 million in six loans, three loans which are collateralized by operating hotels and three of which relate to hotel development projects.

ACQUISITIONS

Our primary growth strategy is to selectively acquire high quality branded upper-upscale, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers-to-entry and independent boutique hotels in similar markets. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value. We believe that current market conditions are creating opportunities to acquire hotels at attractive prices. In executing our disciplined acquisition program, we will consider acquiring hotels that meet the following additional criteria:

Table of Contents

- nationally-franchised hotels operating under popular brands, such as Marriott Hotels & Resorts, Hilton Hotels, Courtyard by Marriott, Residence Inn by Marriott, Spring Hill Suites by Marriott, Hilton Garden Inn, Hampton Inn, Sheraton Hotels & Resorts, DoubleTree, Embassy Suites, Hyatt Summerfield Suites, Hyatt Place, TownePlace Suites and Holiday Inn Express;

- hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes;

- hotels in our target markets where we can realize operating efficiencies and economies of scale; and

- independent boutique hotels in similar markets

Since our initial public offering in January 1999 and through December 31, 2010, we have acquired, wholly or through joint ventures, a total of 92 hotels, including 28 hotels acquired from entities controlled by certain of our affiliated trustees and executive officers. Of the 28 acquisitions from entities controlled by certain of our affiliated trustees and executive officers, 26 were newly constructed or substantially renovated by these entities prior to our acquisition. Because we do not develop properties, we take advantage of our relationships with entities that are developing or substantially renovating hotels, including entities controlled by certain of our affiliated trustees and executive officers, to identify future hotel acquisitions that we believe may be attractive to us. We intend to continue to acquire hotels from entities controlled by certain of our affiliated trustees and executive officers if approved by a majority of our independent trustees in accordance with our related party transaction policy.

DISPOSITIONS

We evaluate our hotels on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management’s forecast and review of the cash flow potential for the hotel and re-deploy the proceeds into debt reduction or acquisitions of hotels. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management’s forecast of the strength of the hotel’s cash flows and its ability to remain accretive to our portfolio. Our decision to sell an asset is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by our Board of Trustees, including our independent trustees. A majority of the independent trustees must approve the terms of all asset sales. During the time since our initial public offering in 1999 through December 31, 2010, we have sold a total of 23 hotels.

FINANCING

The relative stability of the mid-scale, upscale and upper-upscale segments of the limited service lodging industry allows us to increase returns to our shareholders through the prudent application of leverage. We may employ a higher amount of leverage at a specific hotel to achieve a desired return when warranted by that hotel's historical operating performance and may use greater leverage across our portfolio if and when warranted by prevailing market conditions.

PROPERTY MANAGEMENT

We work closely with our hotel management companies to operate our hotels and increase same hotel performance for our portfolio. Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels, as of December 31, 2010:

	Wholly Owned		Joint Ventures		Total	
Manager	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
HHMLP	55	6,681	4	586	59	7,267
Waterford Hotel Group	-	-	9	1,708	9	1,708
LodgeWorks	7	1,005	-	-	7	1,005
Jiten Management	-	-	2	282	2	282
Total	62	7,686	15	2,576	77	10,262

Each management agreement provides for a set term and is subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, all managers, including HHMLP, must qualify as an “eligible independent contractor” during the term of the management agreements.

Table of Contents

Under the management agreements, the manager generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by the manager in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. Our managers are not obligated to advance any of their own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel.

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

We have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective franchise licenses among other requirements. In addition, we may upgrade the hotels in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses in the Consolidated Statements of Operations.

OPERATING PRACTICES

Our hotel managers utilize centralized accounting and data processing systems, which facilitate financial statement and budget preparation, payroll management, quality control and other support functions for the on-site hotel management team. Our hotel managers also provide centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

DISTRIBUTIONS

We have made forty-eight consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders as approved by our Board of Trustees. The following table sets forth distribution information for the last two calendar years.

Quarter to which Distribution Relates	Class A Common Shares and Limited Partnership Unit Per Share Distribution Amount	Record Date	Payment Date	Series A Preferred Per Share Distribution Amount	Record Date	Payment Date
2010						
Fourth Quarter	$ 0.05	1/4/2011	1/17/2011	$ 0.50	1/1/2011	1/17/2011
Third Quarter	$ 0.05	9/30/2010	10/15/2010	$ 0.50	10/1/2010	10/15/2010

Second Quarter	$	0.05	6/30/2010	7/15/2010	$	0.50	7/1/2010	7/15/2010
First Quarter	$	0.05	4/1/2010	4/15/2010	$	0.50	4/1/2010	4/15/2010
2009								
Fourth Quarter	$	0.05	1/4/2010	1/15/2010	$	0.50	1/1/2010	1/15/2010
Third Quarter	$	0.05	9/30/2009	10/15/2009	$	0.50	10/1/2009	10/15/2009
Second Quarter	$	0.05	6/30/2009	7/15/2009	$	0.50	7/1/2009	7/15/2009
First Quarter	$	0.18	3/31/2009	4/15/2009	$	0.50	4/1/2009	4/15/2009

Our Board of Trustees will determine the amount of our future distributions in its sole discretion and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on the profitability of and cash flow available from our hotels. There can be no assurance we will continue to pay distributions at the rates above or any other rate. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements. There are no assurances we will be able to continue to make quarterly distributions at the current rate.

Table of Contents

SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting higher occupancy rates during the second and third quarters. This seasonality causes fluctuations in our quarterly operating revenues and profitability. Hotel revenue is generally greater in the second and third quarters than in the first and fourth quarters.

COMPETITION

The upper-upscale, upscale and mid-scale, limited service segments of the hotel business are highly competitive. Among many other factors, our hotels compete on the basis of location, room rates, quality, service levels, reputation, and reservation systems. There are many competitors in our market segments and new hotels are routinely being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours. This competition could limit the number of suitable investment opportunities offered to us. It may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms.

EMPLOYEES

As of December 31, 2010, we had 28 employees who were principally engaged in managing the affairs of the company unrelated to property management. Our relations with our employees are satisfactory.

FRANCHISE AGREEMENTS

We believe that the public's perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchises
Marriott International	Marriott, Residence Inn, Springhill Suites, Courtyard by Marriott, Fairfield Inn, TownePlace Suites
Hilton Hotels Corporation	Hilton, Hilton Garden Inn, Hampton Inn, Homewood Suites
Intercontinental Hotel Group	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites, Candlewood Suites
Hyatt Hotels Corporation	Hyatt Summerfield Suites, Hawthorn Suites
Starwood Hotels	Sheraton Hotels
Choice Hotels International	Comfort Inn, Comfort Suites, Sleep Inn, Mainstay Suites

We anticipate that most of the hotels in which we invest will be operated pursuant to franchise licenses.

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of our hotel revenues.

TAX STATUS

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with our taxable year ended December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on the portion of our income that is currently distributed to our shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we will be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

Table of Contents

We own interests in several TRSs. We may own up to 100% of the stock of a TRS. A TRS is a taxable corporation that may lease hotels under certain circumstances, provide services to us, and perform activities such as third party management, development, and other independent business activities. Overall, no more than 25% of the value of our assets may consist of securities of one or more TRSs. In addition, no more than 25% of our gross income for any year may consist of dividends from one or more TRSs and income from certain non-real estate related sources.

A TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager that qualifies as an "eligible independent contractor." To qualify for that treatment, the manager must satisfy the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating “qualified lodging facilities” for any person unrelated to us and the TRS;
2. such manager does not own, directly or indirectly, more than 35% of our shares;
3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and
4. we do not directly or indirectly derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation. A 100% excise tax is imposed on transactions between a TRS and us or our tenants that are not on an arm’s-length basis.

FINANCIAL INFORMATION ABOUT SEGMENTS

We are in the business of acquiring equity interests in hotels, and we manage our hotels as individual operating segments that meet the aggregation criteria and are therefore disclosed as one reportable segment. See “Note 1 Organization and Summary of Significant Accounting Policies” in Item 8 of this Annual Report on Form 10-K for segment financial information.

Table of Contents

Item 1A. Risk Factors

You should carefully consider the following risks, together with the other information included in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our securities could decline, and you may lose all or part of any investment you have in our securities.

RISKS RELATED TO THE HOTEL INDUSTRY

Current economic conditions have adversely impacted the lodging industry.

The U.S. economy has been negatively impacted by financial industry turmoil, high unemployment and poor consumer sentiment over the past two years. As a result, the lodging industry had experienced negative growth which had a negative impact on our results of operations and financial condition. A return to these market conditions could reduce revenues of our hotels and could adversely affect our ability to make distributions to our shareholders.

Our hotels are subject to general hotel industry operating risks, which may impact our ability to make distributions to shareholders.

Our hotels are subject to all operating risks common to the hotel industry. The hotel industry has experienced volatility in the past, as have our hotels, and there can be no assurance that such volatility will not occur in the future. These risks include, among other things: competition from other hotels; over-building in the hotel industry that could adversely affect hotel revenues and hotel values; increases in operating costs due to inflation and other factors, which may not be offset by increased room rates; reduction in business and commercial travel and tourism; strikes and other labor disturbances of hotel employees; increases in energy costs and other expenses of travel; adverse effects of general and local economic conditions; and adverse political conditions. These factors could reduce revenues of the hotels and adversely affect our ability to make distributions to our shareholders.

The value of our hotels depends on conditions beyond our control.

Our hotels are subject to varying degrees of risk generally incident to the ownership of hotels. The underlying value of our hotels, our income and ability to make distributions to our shareholders are dependent upon the operation of the hotels in a manner sufficient to maintain or increase revenues in excess of operating expenses. Hotel revenues may be adversely affected by adverse changes in national economic conditions, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, competition from other hotels, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate tax rates and other operating expenses, adverse changes in governmental rules and fiscal policies, civil unrest, acts of terrorism, acts of God, including earthquakes, hurricanes and other natural disasters, acts of war, adverse changes in zoning laws, and other factors that are beyond our control. In particular, general and local economic conditions may be adversely affected by the previous terrorist incidents in New York and Washington, D.C. Our management is unable to determine the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide, on the U.S. economy, on us or our hotels or on the market price of our common shares.

Our investments are concentrated in a single segment of the hotel industry.

Our primary business strategy is to continue to acquire high quality, upscale and mid-scale limited service and extended-stay hotels in metropolitan markets with high barriers to entry in the Northeastern United States and other markets with similar characteristics. We are subject to risks inherent in concentrating investments in a single industry and in a specific market segment within that industry. The adverse effect on amounts available for distribution to shareholders resulting from a downturn in the hotel industry in general or the mid-scale segment in particular could be more pronounced than if we had diversified our investments outside of the hotel industry or in additional hotel market segments.

Operating costs and capital expenditures for hotel renovation may be greater than anticipated and may adversely impact distributions to shareholders.

Hotels generally have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement of furniture, fixtures and equipment. Under the terms of our management agreements, we are obligated to pay the cost of expenditures for items that are classified as capital items under GAAP that are necessary for the continued operation of our hotels.

If these expenses exceed our estimate, the additional cost could have an adverse effect on amounts available for distribution to shareholders. In addition, we may acquire hotels in the future that require significant renovation. Renovation of hotels involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from hotels.

Table of Contents

The hotel industry is highly competitive.

The hotel industry is highly competitive. Our hotels compete with other existing and new hotels in their geographic markets. Many of our competitors have substantially greater marketing and financial resources than we do. Effective marketing by our competitors may reduce our hotel revenue and adversely impact our ability to make distributions to our shareholders.

Risks of operating hotels under franchise licenses, which may be terminated or not renewed, may impact our ability to make distributions to shareholders.

The continuation of the franchise licenses is subject to specified operating standards and other terms and conditions. All of the franchisors of our hotels periodically inspect our hotels to confirm adherence to their operating standards. The failure to maintain such standards or to adhere to such other terms and conditions could result in the loss or cancellation of the applicable franchise license. It is possible that a franchisor could condition the continuation of a franchise license on the completion of capital improvements that the trustees determine are too expensive or otherwise not economically feasible in light of general economic conditions, the operating results or prospects of the affected hotel. In that event, the trustees may elect to allow the franchise license to lapse or be terminated.

There can be no assurance that a franchisor will renew a franchise license at each option period. If a franchisor terminates a franchise license, we may be unable to obtain a suitable replacement franchise, or to successfully operate the hotel independent of a franchise license. The loss of a franchise license could have a material adverse effect upon the operations or the underlying value of the related hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. Our loss of a franchise license for one or more of the hotels could have a material adverse effect on our partnership's revenues and our amounts available for distribution to shareholders.

The hotel industry is seasonal in nature.

The hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. Our hotels' operations historically reflect this trend. As a result, our results of operations may vary on a quarterly basis, impairing comparability of operating data and financial performance on a quarter to quarter basis.

Future terrorist attacks or changes in terror alert levels could adversely affect travel and hotel demand.

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 impact that 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 our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

The outbreak of influenza or other widespread contagious disease could reduce travel and adversely affect hotel demand.

The widespread outbreak of infectious or contagious disease in the U.S., such as the H1N1 influenza (swine flu), could reduce travel and adversely affect the hotel industry generally and our business in particular.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

A general economic recession or depression could have a serious adverse economic impact on us.

In 2010, general worldwide economic conditions suffered due to sequential effects of the sub prime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. Our business plans for 2011 and beyond depend on the general state of the global economy and specifically on the economies of the locations of our hotels. We cannot assure you that favorable economic conditions will exist in the future. A prolonged general economic recession could have a serious adverse economic impact on us.

We face risks associated with the use of debt, including refinancing risk.

At December 31, 2010, we had outstanding long-term debt, excluding capital leases, of $694.7 million. We may borrow additional amounts from the same or other lenders in the future. Some of these additional borrowings may be secured by our hotels. Our declaration of trust (as amended and restated, our “Declaration of Trust”) does not limit the amount of indebtedness we may incur. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our hotels to foreclosure. Our indebtedness contains various financial and non-financial event of default covenants customarily found in financing arrangements. Our mortgages payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow from the applicable hotels.

Table of Contents

There is also a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of properties, we may be forced to use operating income to repay such indebtedness, which would have a material adverse effect on our cash available for distribution in years when significant "balloon" payments come due. In some such cases, we may lose the applicable hotels to foreclosure. This risk is particularly significant. See Item 7A for a detailed schedule of debt principal repayments.

Tightening credit markets have made financing development projects and acquiring new hotel properties more difficult.

The turmoil in the financial industry has caused credit to significantly tighten making it more difficult for hotel developers to obtain financing for development projects or for hotels without an operating history. This could have a negative impact on the collectability of our portfolio of development loans receivable, which as of December 31, 2010 was approximately $41.7 million, if the hotel developers are unable to find financing to repay our development loans when development is complete. In addition, the tightening credit markets have made it more difficult to finance the acquisition of new hotel properties. These factors could have a negative impact on our future results of operations and financial condition.

If we cannot access the capital markets, we may not be able to grow the Company at our historical growth rates.

We may not be able to access the capital markets to obtain capital to fund future acquisitions and investments. The market for real estate related debt and equity capital could endure a prolonged period of volatility which may limit our ability to access new capital for acquisitions, investments and joint ventures. Because we must distribute annually at least 90% of our taxable income each year to maintain our qualification as a REIT, our ability to rely upon income or cash flow from operations to finance our growth and acquisition activities will be limited. Accordingly, were we unable to obtain funds from borrowings or the capital markets to finance our growth and acquisition activities, our ability to grow could be curtailed, amounts available for distribution to shareholders could be adversely affected and we could be required to reduce distributions.

We face high levels of competition for the acquisition of hotel properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We face competition for investment opportunities in high quality, upscale and mid-scale limited service and extended-stay hotels from entities organized for purposes substantially similar to our objectives, as well as other purchasers of hotels. We compete for such investment opportunities with entities that have substantially greater financial resources than we do, including access to capital or better relationships with franchisors, sellers or lenders. Our competitors may generally be able to accept more risk than we can manage prudently and may be able to borrow the funds needed to acquire hotels. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell.

We do not operate our hotels and, as a result, we do not have complete control over implementation of our strategic decisions.

In order for us to satisfy certain REIT qualification rules, we cannot directly or indirectly operate or manage any of our hotels. Instead, we must engage an independent management company to operate our hotels. As of December 31, 2010, our TRSs and our joint venture partnerships have engaged independent management companies as the property managers for all of our wholly owned hotels leased to our TRSs and the respective hotels for the joint ventures, as required by the REIT qualification rules. The management companies operating the hotels make and implement strategic business decisions with respect to these hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by the management companies operating the hotels may not be in the best interests of a particular hotel or of our company. Accordingly, we cannot assure you that the management companies will operate our hotels in a manner that is in our best interests. In addition, the financial condition of the management companies could impact their future ability to operate our hotels.

Our acquisitions may not achieve expected performance, which may harm our financial condition and operating results.

We anticipate that acquisitions will largely be financed with the net proceeds of securities offerings and through externally generated funds such as borrowings under credit facilities and other secured and unsecured debt financing. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that estimates of the cost of improvements necessary to acquire and market properties will prove inaccurate, as well as general investment risks associated with any new real estate investment. As a result, we may not be able to generate enough cash from these hotels to make debt service payments or pay operating expenses.

Table of Contents

Acquisition of hotels with limited operating history may not achieve desired results.

Many of our recent acquisitions are newly-developed hotels. Newly-developed or newly-renovated hotels do not have the operating history that would allow our management to make pricing decisions in acquiring these hotels based on historical performance. The purchase prices of these hotels are based upon management's expectations as to the operating results of such hotels, subjecting us to risks that such hotels may not achieve anticipated operating results or may not achieve these results within anticipated time frames. As a result, we may not be able to generate enough cash flow from these hotels to make debt payments or pay operating expenses. In addition, room revenues may be less than that required to provide us with our anticipated return on investment. In either case, the amounts available for distribution to our shareholders could be reduced.

We may be unable to integrate acquired hotels into our operations or otherwise manage our planned growth, which may adversely affect our operating results.

We have recently acquired a substantial number of hotels. We cannot assure you that we or HHMLP will be able to adapt our management, administrative, accounting and operational systems and arrangements, or hire and retain sufficient operational staff to successfully integrate these investments into our portfolio and manage any future acquisitions of additional assets without operational disruptions or unanticipated costs. Acquisition of hotels generates additional operating expenses that we will be required to pay. As we acquire additional hotels, we will be subject to the operational risks associated with owning new lodging properties. Our failure to integrate successfully any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to shareholders or make other payments in respect of securities issued by us.

Most of our hotels are located in the Eastern United States and many are located in the area from Washington, DC to Boston, MA, which may increase the effect of any regional or local economic conditions.

Most of our hotels are located in the area from Washington, DC to Boston, MA. Forty-one of our wholly owned hotels and eleven of our joint venture hotels are located in the states of Pennsylvania, New Jersey, New York, Rhode Island and Connecticut. As a result, regional or localized adverse events or conditions, such as an economic recession, could have a significant adverse effect on our operations, and ultimately on the amounts available for distribution to shareholders.

Our ownership of hotels in the New York City market exposes us to concentration risk, which may lead to increased volatility in our results of operations.

Our consolidated portfolio of hotels in New York City have historically accounted for approximately 35%-40% of our consolidated earnings before income taxes, depreciation and amortization, or EBITDA, and this percentage is expected to increase going forward with our 2010 acquisitions located in the Times Square and Wall Street area. The three Times Square hotels are newly-constructed hotels that opened for business in July 2009 and have limited operating history. The Wall Street hotel was also newly-constructed and has limited operating history prior to our purchase. As a result, our ability to forecast future operations accurately is limited and there is considerable risk the Times Square and Wall Street hotels may not generate sufficient revenue to cover the costs of their operations or provide attractive returns on our investment. The operations of our consolidated portfolio of hotels in New York City will have a material impact on our overall results of operations. Concentration risk with respect to our ownership of hotels in the New York City market may lead to increased volatility in our overall results of operations. Our overall results of operations may be adversely affected and our ability to pay distributions to our shareholders could be negatively impacted in the event:

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the current downturn in lodging fundamentals is more severe or prolonged in New York City compared to the United States as a whole;

- negative economic conditions generally are more severe or prolonged in New York City compared to other areas, due to concentration of the financial industry in New York or otherwise;
- we adopt an unsuccessful strategy to ramp up and stabilize operations at our newly acquired New York hotels; or
- New York City is impacted by other unforeseen events beyond our control, including, among others, terrorist attacks and travel related health concerns including pandemics and epidemics such as H1N1 influenza (swine flu), avian bird flu and SARS.

We own a limited number of hotels and significant adverse changes at one hotel may impact our ability to make distributions to shareholders.

As of December 31, 2010, our portfolio consisted of 62 wholly-owned limited and full service properties and joint venture investments in 15 hotels with a total of 10,262 rooms. However, certain larger hotels or hotels in certain locations disproportionately impact our performance. Accordingly, significant adverse changes in the operations of any one of these hotels could have a material adverse effect on our financial performance and on our ability to make expected distributions to our shareholders.

Table of Contents

We focus on acquiring hotels operating under a limited number of franchise brands, which creates greater risk as the investments are more concentrated.

We place particular emphasis in our acquisition strategy on hotels similar to our current hotels. We invest in hotels operating under a few select franchises and therefore will be subject to risks inherent in concentrating investments in a particular franchise brand, which could have an adverse effect on amounts available for distribution to shareholders. These risks include, among others, the risk of a reduction in hotel revenues following any adverse publicity related to a specific franchise brand or the failure of the franchisor to maintain a certain brand.

We depend on key personnel.

We depend on the services of our existing senior management team, including Jay H. Shah, Neil H. Shah, Ashish R. Parikh and Michael R. Gillespie, to carry out our business and investment strategies. As we expand, we will continue to need to attract and retain qualified additional senior management. We have employment agreements with certain of our senior management; however, the employment agreements may be terminated under certain circumstances. The termination of an employment agreement and the loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results.

We may engage in hedging transactions, which can limit our gains and increase exposure to losses.

We may enter into hedging transactions intended to protect us from the effects of interest rate fluctuations on floating rate debt and also intended to protect our portfolio of mortgage assets from interest rate and prepayment rate fluctuations. Our hedging transactions may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition. No hedging activity can completely insulate us from the risks associated with changes in interest rates and prepayment rates. Moreover, interest rate hedging could fail to protect us or could adversely affect us because, among other things:

- Available interest rate hedging 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 party at risk in the hedging transaction may default on its obligation to pay.
- The credit quality of the party 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.
- The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value.

Downward adjustments, or “mark-to-market losses,” relating to hedging instruments may reduce our shareholders’ equity.

Hedging involves risk and typically involves costs, including transaction costs, which may reduce returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distribution to shareholders. The REIT qualification rules may also limit our ability to enter into hedging transactions. We generally intend to hedge as much of our interest rate risk as our management determines is in our best interests given the cost of such hedging transactions and the requirements applicable to REITs. If we are unable to hedge effectively because of the cost of such hedging transactions or the limitations imposed by the REIT rules, we will face greater interest risk exposure than may be commercially prudent.

RISKS RELATED TO REAL ESTATE INVESTMENT GENERALLY

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in operating, economic and other conditions will be limited. No assurances can be given that the fair market value of any of our hotels will not decrease in the future.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

We require comprehensive insurance to be maintained on each of the our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism, that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

Table of Contents

Real estate is subject to property taxes.

Each hotel is subject to real and personal property taxes. The real and personal property taxes on hotel properties in which we invest may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. Many state and local governments are facing budget deficits that have led many of them, and may in the future lead others to, increase assessments and/or taxes. If property taxes increase, our ability to make expected distributions to our shareholders could be adversely affected.

Environmental matters could adversely affect our results.

Operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to shareholders. Phase I environmental assessments have been obtained on all of our hotels. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.

Costs associated with complying with the Americans with Disabilities Act may adversely affect our financial condition and operating results.

Under the Americans with Disabilities Act of 1993 (ADA), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While we believe that our hotels are substantially in compliance with these requirements, a determination that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies affecting the use and operation of the hotels, including changes to building codes and fire and life-safety codes, may occur. If we were required to make substantial modifications at the hotels to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

RISKS RELATING TO CONFLICTS OF INTEREST

Due to conflicts of interest, many of our existing agreements may not have been negotiated on an arm’s-length basis and may not be in our best interest.

Some of our officers and affiliated trustees have ownership interests in HHMLP and in entities with which we have entered into transactions, including hotel acquisitions and dispositions and certain financings. Consequently, the terms of our agreements with those entities, including hotel contribution or purchase agreements, the Option Agreement between our operating partnership and some of the affiliated trustees and officers and our property management agreements with HHMLP may not have been negotiated on an arm’s-length basis and may not be in the best interest of all our shareholders.

Conflicts of interest with HHMLP may result in decisions that do not reflect our best interests.

The following officers and affiliated trustees own collectively approximately 37% of HHMLP: Hasu P. Shah, Jay H. Shah, Neil H. Shah, David L. Desfor and Kiran P. Patel. Conflicts of interest may arise with respect to the ongoing operation of our hotels including, but not limited to, the enforcement of the contribution and purchase agreements, the

Option Agreement and our property management agreements with HHMLP. These officers and affiliated trustees also make decisions for our company with respect to property management. Consequently, these officers and affiliated trustees may not act solely in the best interests of our shareholders relating to property management by HHMLP.

Conflicts of interest relating to sales or refinancing of hotels acquired from some of our affiliated trustees and officers may lead to decisions that are not in our best interest.

Some of our non-independent trustees and officers have unrealized gains associated with their interests in the hotels we have acquired from them and, as a result, any sale of these hotels or refinancing or prepayment of principal on the indebtedness assumed by us in purchasing these hotels may cause adverse tax consequences to such affiliated trustees and officers. Therefore, our interests and the interests of these individuals may be different in connection with the disposition or refinancing of these hotels.

Table of Contents

Agreements to provide financing of hotel development projects owned by some of our affiliated trustees and officers may not have been negotiated on an arm's-length basis and may not be in our best interest.

Some of our officers and affiliated trustees have ownership interests in projects to develop hotel properties with which we have entered into agreements to provide financing. Consequently, the terms of our agreements with those entities, including interest rates and other key terms, may not have been negotiated on an arm's-length basis and may not be in the best interest of all our shareholders.

Competing hotels owned or acquired by some of our affiliated trustees and officers may hinder these individuals from spending adequate time on our business.

Some of our affiliated trustees and officers own hotels and may develop or acquire new hotels, subject to certain limitations. Such ownership, development or acquisition activities may materially affect the amount of time these officers and affiliated trustees devote to our affairs. Some of our affiliated trustees and officers operate hotels that are not owned by us, which may materially affect the amount of time that they devote to managing our hotels. Pursuant to the Option Agreement, as amended, we have an option to acquire any hotels developed by our officers and affiliated trustees.

Need for certain consents from the limited partners may not result in decisions advantageous to shareholders.

Under our operating partnership's amended and restated partnership agreement, the holders of at least two-thirds of the interests in the partnership must approve a sale of all or substantially all of the assets of the partnership or a merger or consolidation of the partnership. Some of our officers and affiliated trustees own an approximately 2.5% interest in the operating partnership on a fully-diluted basis. Their large ownership percentage may make it less likely that a merger or sale of our company that would be in the best interests of our shareholders would be approved.

RISKS RELATING TO OUR CORPORATE STRUCTURE

There are no assurances of our ability to make distributions in the future.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. However, our ability to pay dividends may be adversely affected by the risk factors described in this annual report. All distributions will be made at the discretion of our Board of Trustees and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our board may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend or interest rate on our securities or seek securities paying higher dividends or interest. The market price of our common shares likely will be based primarily on the earnings and return that we derive from our investments and income with respect to our properties and our related distributions to shareholders, and not from the market value or underlying appraised value of the properties or investments themselves. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common shares could decrease because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

Holders of our outstanding Series A preferred shares have dividend, liquidation and other rights that are senior to the rights of the holders of our common shares.

Our Board of Trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2010, 2,400,000 shares of our Series A preferred shares were issued and outstanding. The aggregate liquidation preference with respect to the outstanding preferred shares is approximately $60.0 million, and annual dividends on our outstanding preferred shares are approximately $4.8 million. Holders of our Series A preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of our Series A preferred shares are entitled to receive a liquidation preference of $25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of our Series A preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Table of Contents

Future offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of equity securities, including classes of preferred or common shares. Upon liquidation, holders of our preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Our preferred shares, if issued, could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common shares and diluting their share holdings in us.

Future sales of our common shares by IRSA Inversiones y Representaciones Sociedad Anonima, or IRSA, and its affiliates, could depress the market price of our common shares.

We cannot predict whether future sales of our common shares or securities convertible into or exchangeable or exercisable for our commons shares or the availability of these securities for resale in the open market will decrease the market price of our common shares. Based on information known by us as of March 2, 2011, IRSA and its affiliates beneficially own 18,134,548 common shares, including 5,700,000 common shares issuable by us upon exercise of outstanding options. These shares, which represent approximately 10.7% our common shares outstanding as of March 2, 2011, may be resold by IRSA and its affiliates in the public market pursuant to a shelf registration statement that has become effective under the Securities Act, or pursuant to any available exemption from registration. Sales of a substantial number of common shares by IRSA and its affiliates, or the perception that such sales could occur, could adversely affect prevailing market prices of the common shares.

IRSA and its affiliates beneficially own a significant percentage of our common shares, which could result in significant influence over the outcome of matters submitted to the vote of our shareholders.

Based on information known by us as of March 2, 2011, IRSA and its affiliates beneficially own approximately 10.7% of our common shares outstanding as of this date. In addition, Real Estate Investment Group, L.P., or REIG, an affiliate of IRSA, has certain preemptive rights to acquire additional shares of beneficial interest. Eduardo Elsztain, the Chairman and Chief Executive Officer of IRSA, also serves on our Board of Trustees. Accordingly, IRSA and its affiliates have significant influence over us and the ownership level of IRSA and its affiliates may discourage or prevent others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common shares or otherwise be in the best interest of our shareholders. This concentration of ownership may result in decisions affecting us that may not serve the best interest of all shareholders.

Our Board of Trustees may issue additional shares that may cause dilution or prevent a transaction that is in the best interests of our shareholders.

Our Declaration of Trust authorizes the Board of Trustees, without shareholder approval, to:

- amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have the authority to issue;
- cause us to issue additional authorized but unissued common shares or preferred shares; and
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classify or reclassify any unissued common or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including the issuance of additional common shares or preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters

Any one of these events could cause dilution to our common shareholders, delay, deter or prevent a transaction or a change in control that might involve a premium price for the common shares or otherwise not be in the best interest of holders of common shares.

The Declaration of Trust contains a provision that creates staggered terms for our Board of Trustees.

Our Board of Trustees is divided into two classes, the terms of which expire every two years. Trustees of each class are elected for two-year terms upon the expiration of their current terms and each year one class of trustees will be elected by the shareholders. The staggered terms of trustees may delay, deter or prevent a tender offer, a change in control of us or other transaction, even though such a transaction might be in the best interest of the shareholders.

Maryland Business Combination Law may discourage a third party from acquiring us.

Under the Maryland General Corporation Law, as amended (MGCL), as applicable to REITs, certain “business combinations” (including certain issuances of equity securities) between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust’s shares, or an affiliate thereof, are prohibited for five years after the most recent date on which such shareholder acquired at least ten percent of the voting power of the trust’s shares. Thereafter, any such business combination must be approved by two super-majority shareholder votes unless, among other conditions, the trust’s common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. These provisions could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests.

Table of Contents

Our Board of Trustees may change our investment and operational policies without a vote of the common shareholders.

Our major policies, including our policies with respect to acquisitions, financing, growth, operations, debt limitation and distributions, are determined by our Board of Trustees. The Trustees may amend or revise these and other policies from time to time without a vote of the holders of the common shares.

Our Board of Trustees and management make decisions on our behalf, and shareholders have limited management rights.

Our shareholders have no right or power to take part in our management except through the exercise of voting rights on certain specified matters. The board of trustees is responsible for our management and strategic business direction, and our management is responsible for our day-to-day operations. Certain policies of our board of trustees may not be consistent with the immediate best interests of our shareholders.

RISKS RELATED TO OUR TAX STATUS

If we fail to qualify as a REIT, our dividends will not be deductible to us, and our income will be subject to taxation, which would reduce the cash available for distribution to our shareholders.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing REITs are limited. Our continued qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding shares of beneficial interest, the nature of our assets, the sources of our income, and the amount of our distributions to our shareholders. Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year and did not qualify for certain statutory relief provisions, we would not be allowed a deduction for distributions to our shareholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of, and trading prices for, our shares. Unless entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, amounts available for distribution to shareholders would be reduced for each of the years involved. Although we currently intend to operate in a manner so as to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Trustees, with the consent of holders of two-thirds of the outstanding shares, to revoke our REIT election.

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our shareholders.

In order to qualify as a REIT, each year we must distribute to our shareholders at least 90% of our REIT taxable income determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our actual distributions in any year are less than the sum of:

- 85% of our REIT ordinary income for that year;

- 95% of our REIT capital gain net income for that year; and
- 100% of our undistributed taxable income required to be distributed from prior years.

We have distributed, and intend to continue to distribute, our income to our shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year. In the past we have borrowed, and in the future we may borrow, to pay distributions to our shareholders and the limited partners of our operating partnership. Such borrowings subject us to risks from borrowing as described herein. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

Table of Contents

Under Internal Revenue Service, or IRS, guidance, we may pay taxable dividends of our common shares and cash, in which case shareholders may sell our common shares to pay tax on such dividends, placing downward pressure on the market price of our common shares.

Under IRS guidance, we may distribute taxable dividends that are payable in cash and common shares at the election of each shareholder. Under Revenue Procedure 2010-12, or the Revenue Procedure, up to 90% of any such taxable dividend paid with respect to our 2011 taxable year could be payable in shares of our common shares. 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, as determined for federal income tax purposes. As a result, shareholders may be required to pay income tax 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. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold 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. If we utilize the Revenue Procedure and a significant number of our shareholders determine to sell our common shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common shares. We do not currently intend to utilize the Revenue Procedure.

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 domestic stockholders taxed at individual rates has been reduced by legislation to 15% through the end of 2012. Dividends payable by REITs, however, generally are not eligible for the reduced rates. 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 taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

If the leases of our hotels to our TRSs 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, under which specified percentages of our gross income must be derived from certain sources, such as “rents from real property.” Rents paid to our operating partnership by our TRSs pursuant to the lease of our hotels constitute substantially all of our gross income. In order for such rent to qualify as “rents from real property” for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

The federal income tax laws governing REITs are complex.

We intend to continue to operate in a manner that will qualify us as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so we can continue to qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

Complying with REIT requirements may force us to sell otherwise attractive investments.

To qualify as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. If we fail to comply with these requirements at the end of any calendar quarter, and the failure exceeds a de minimis threshold, we may be able to preserve our REIT status if (a) the failure was due to reasonable cause and not to willful neglect, (b) we dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, (c) we file a schedule with the IRS describing each asset that caused the failure, and (d) we pay an additional tax of the greater of $50,000 or the product of the highest applicable tax rate multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets, that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

Table of Contents

Our share ownership limitation may prevent certain transfers of our shares.

In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities). Our Declaration of Trust prohibits direct or indirect ownership (taking into account applicable ownership provisions of the Internal Revenue Code) of more than (a) 9.9% of the aggregate number of outstanding common shares of any class or series or (b) 9.9% of the aggregate number of outstanding preferred shares of any class or series of outstanding preferred shares by any shareholder or group (the "Ownership Limitation"). Generally, the shares of beneficial interest owned by related or affiliated owners will be aggregated for purposes of the Ownership Limitation. The ownership limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests. Any transfer of shares of beneficial interest that would violate the Ownership Limitation, cause us to have fewer than 100 shareholders, cause us to be "closely held" within the meaning of Section 856(h) of the Internal Revenue Code or cause us to own, directly or indirectly, 10% or more of the ownership interest in any tenant (other than a TRS) will be void, the intended transferee of such shares will be deemed never to have had an interest in such shares, and such shares will be designated "shares-in-trust." Further, we will be deemed to have been offered shares-in-trust for purchase at the lesser of the market price (as defined in the Declaration of Trust) on the date we accept the offer and the price per share in the transaction that created such shares-in-trust (or, in the case of a gift, devise or non-transfer event (as defined in the Declaration of Trust), the market price on the date of such gift, devise or non-transfer event). Therefore, the holder of shares of beneficial interest in excess of the Ownership Limitation will experience a financial loss when such shares are purchased by us, if the market price falls between the date of purchase and the date of redemption.

We have, in limited instances from time to time, permitted certain owners to own shares in excess of the Ownership Limitation. The Board of Trustees has waived the Ownership Limitation for such owners after following procedures set out in our Declaration of Trust, under which the owners requesting the waivers provided certain information and our counsel provided certain legal opinions. These waivers established levels of permissible share ownership for the owners requesting the waivers that are higher than the Ownership Limitation. If the owners acquire shares in excess of the higher limits, those shares are subject to the risks described above in the absence of further waivers. The Board of Trustees is not obligated to grant such waivers and has no current intention to do so with respect to any owners who (individually or aggregated as the Declaration of Trust requires) do not currently own shares in excess of the Ownership Limitation.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

The following table sets forth certain information with respect to the 62 hotels we wholly owned as of December 31, 2010, all of which are consolidated on the Company's financial statements.

	Name	Year Opened	Number of Rooms
Candlewood Suites			
	Times Square, NY	2009	188
Comfort Inn			
	North Dartmouth, MA	1986	84
	Harrisburg, PA	1998	81
Courtyard			
	Alexandria, VA	2006	203
	Scranton, PA	1996	120
	Langhorne, PA	2002	118
	Brookline/Boston, MA*	2003	188
	Wilmington, DE	1999	78
Fairfield Inn			
	Bethlehem, PA	1997	103
	Laurel, MD	1999	109
Hampton Inn			
	Brookhaven, NY	2002	161
	Chelsea/Manhattan, NY	2003	144
	Hershey, PA	1999	110
	Carlisle, PA	1997	95
	Danville, PA	1998	72
	Selinsgrove, PA	1996	75
	Herald Square, Manhattan, NY	2005	136
	Philadelphia, PA	2001	250
	Seaport, NY	2006	65
	Smithfield, RI	2008	101
	Times Square, NY	2009	184
	West Haven, CT	2009	98
	Washington, DC	2005	228
Hawthorn Suites			
	Franklin, MA	1999	100
Hilton Garden Inn			
	JFK Airport, NY*	2005	188
	TriBeCa, NY	2009	151
	Edison, NJ*	2003	132
	Glastonbury, CT	2003	150
Holiday Inn			
	Norwich, CT	2006	134
	Wall Street, NY	2010	113
Holiday Inn Express			
	Hauppauge, NY	2001	133
	Cambridge, MA	1997	112
	Hershey, PA	1997	85
	Malvern, PA	2004	88

	Oxford Valley, PA	2004	88
	Chester, NY	2006	80
	Camp Springs, MD	2008	127
	Times Square, NY	2009	210
Holiday Inn Express & Suites			
	Harrisburg, PA	1997	77
	King of Prussia, PA	2004	155
Hyatt Place			
	King of Prussia, PA	2010	129
Independent			
	Wilmington, DE	1999	71
	Fifth Ave, NY	2007	70
	TriBeCa, NY	2008	45
	Brooklyn, NY	2008	93

Table of Contents

	Name	Year Opened	Number of Rooms
Residence Inn			
	North Dartmouth, MA	2002	96
	Tysons Corner, VA	1984	96
	Framingham, MA	2000	125
	Greenbelt, MD	2002	120
	Norwood, MA	2006	96
	Langhorne, PA	2007	100
	Carlisle,PA	2007	78
Sheraton Hotel			
	JFK Airport, NY*	2008	150
	New Castle, DE	2011	191
Summerfield Suites			
	White Plains, NY	2000	159
	Bridgewater, NJ	1998	128
	Gaithersburg, MD	1998	140
	Pleasant Hill, CA	2003	142
	Pleasanton, CA	1998	128
	Scottsdale, AZ	1999	164
	Charlotte, NC	1989	144
TownePlace Suites			
	Harrisburg, PA	2008	107
TOTAL ROOMS			7,686

*Our interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreement. These ground lease agreements typically have terms of between 75 and 99 years.

The following table sets forth certain information with respect to the 15 hotels we owned through joint ventures with third parties as of December 31, 2010. Of the 15 properties owned through interests in joint ventures, three are consolidated.

	Name	Year Opened	Number of Rooms	HHLP Ownership in Asset		HHLP Preferred Return	Consolidated/ Unconsolidated
Courtyard							
	Norwich, CT	1997	144	66.7	%	8.5	% Unconsolidated
	South Boston, MA**	2005	164	50.0	%	N/A	Consolidated
	Warwick, RI	2003	92	66.7	%	8.5	% Unconsolidated
	Ewing/Princeton, NJ	2004	130	50.0	%	11.0	% Unconsolidated
Hilton							
	Hartford, CT	2005	393	8.8	%	8.5	% Unconsolidated
Marriott							
	Mystic, CT	2001	285	66.7	%	8.5	% Unconsolidated
	Hartford, CT	2005	409	15.0	%	8.5	% Unconsolidated
Residence Inn							
	Danbury, CT	1999	78	66.7	%	8.5	% Unconsolidated
	Mystic, CT	1996	133	66.7	%	8.5	% Unconsolidated
	Southington, CT	2002	94	44.7	%	8.5	% Unconsolidated

	Williamsburg, VA	2002	108	75.0	%	12.0	%	Consolidated
Holiday Inn Express								
	South Boston, MA**	1998	118	50.0	%	N/A		Unconsolidated
	Manhattan, NY	2006	228	50.0	%	N/A		Unconsolidated
Springhill Suites								
	Waterford, CT	1998	80	66.7	%	8.5	%	Unconsolidated
	Williamsburg, VA	2002	120	75.0	%	12.0	%	Consolidated
TOTAL ROOMS			2,576					

**The joint ventures interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreements. These ground lease agreements typically have terms of between 75 and 99 years.

Table of Contents

Item 3. Legal Proceedings

We are not presently subject to any material litigation nor, to our knowledge, is any other litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or business or financial condition.

Item 4. [Removed and Reserved]

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION

Our common shares began trading on the New York Stock Exchange on May 5, 2008 under the symbol "HT." As of March 2, 2011, the last reported closing price per common share on the New York Stock Exchange was $6.44. The following table sets forth the high and low sales price per common share reported on the New York Stock Exchange as traded and the dividends paid on the common shares for each of the quarters indicated.

Year Ended December 31, 2010	High	Low	Dividend Per Common Share
Fourth Quarter	$ 6.69	$ 5.05	$ 0.05
Third Quarter	$ 5.65	$ 4.16	$ 0.05
Second Quarter	$ 5.98	$ 4.20	$ 0.05
First Quarter	$ 5.41	$ 3.14	$ 0.05

Year Ended December 31, 2009	High	Low	Dividend Per Common Share
Fourth Quarter	$ 3.29	$ 2.33	$ 0.05
Third Quarter	$ 3.43	$ 2.16	$ 0.05
Second Quarter	$ 3.74	$ 1.64	$ 0.05
First Quarter	$ 3.05	$ 1.08	$ 0.18

SHAREHOLDER INFORMATION

At December 31, 2010 we had approximately 14,795 holders of record of our common shares. Units of limited partnership interest in our operating partnership (which are redeemable for common shares on a one for one basis subject to certain limitations) were held by approximately 41 entities and persons.

Our Declaration of Trust, subject to certain exceptions, provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code, more than 9.9% of the number of outstanding common shares of any class or series of common shares or the number of outstanding preferred shares of any class or series of preferred shares. For this purpose, a person includes a "group" and a "beneficial owner" as those terms are used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any transfer of common or preferred shares that would result in any person owning, directly or indirectly, common or preferred shares in excess of the ownership limitation, result in the common and preferred shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), result in our being "closely held" within the meaning of Section 856(h) of the Code, or cause us to own, actually or constructively, 10% or more of the ownership interests in a tenant (other than a TRS) of our or our operating partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, will be null and void, and the intended transferee will acquire no rights in such common or preferred shares.

Any person who acquires or attempts to acquire common or preferred shares in violation of the foregoing restrictions, or any person who owned common or preferred shares that were transferred to a trust, will be required to give written notice immediately to us of such event and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

In addition, the trustees, upon receipt of advice of counsel or other evidence satisfactory to the trustees, in their sole and absolute discretion, may, in their sole and absolute discretion, exempt a person from the ownership limitation under certain circumstances. The foregoing restrictions continue to apply until the trustees determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT and there is an affirmative vote of two-thirds of the number of common and preferred shares entitled to vote on such matter at a regular or special meeting of our shareholders.

All certificates representing common or preferred shares bear a legend referring to the restrictions described above.

The restrictions on ownership and transfer described above could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of some, or a majority, of our common shares might receive a premium for their shares over the then-prevailing market price or which such holders might believe to be otherwise in their best interest.

Table of Contents

EQUITY COMPENSATION PLAN

See Part III, Item 12, for a description of securities authorized for issuance under our 2008 Equity Incentive Plan.

DISTRIBUTION INFORMATION

Future distributions, if any, will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on the profitability and cashflows of our hotels to generate sufficient cash flow for distributions. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2005 and ending December 31, 2010, with the yearly changes in the Standard & Poor's 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REIT Index ("Hotel REIT Index") for the same period, assuming a base share price of $100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.

	Period Ending December 31,					
	2005	2006	2007	2008	2009	2010
Hersha Hospitality Trust	$100.00	$135.29	$118.89	$43.40	$52.35	$114.23
Russell 2000	100.00	118.37	116.51	77.15	98.11	124.46
Hotel REITs Index	100.00	128.62	100.10	40.04	66.32	93.27
S&P 500	100.00	115.79	122.15	76.96	97.33	111.99

Table of Contents

Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. Where applicable, the operating results of certain real estate assets which have been sold or otherwise qualify as held for disposition are included in discontinued operations for all periods presented.

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except per share data)

	2010	2009	2008
Revenue:			
Hotel Operating Revenues	$277,708	$212,352	$236,24
Interest Income From Development Loans	4,686	7,411	7,890
Other Revenues	381	1,981	3,984
Total Revenue	282,775	221,744	248,12
Operating Expenses:			
Hotel Operating Expenses	158,717	124,294	133,76
Hotel Ground Rent	1,374	1,166	1,040
Real Estate and Personal Property Taxes and Property Insurance	19,335	14,060	12,559
General and Administrative	10,263	5,891	7,208
Stock Based Compensation	6,649	2,143	1,502
Acquisition and Terminated Transaction Costs	4,827	328	380
Loss from Impairment of Assets	2,433	39,111	21,004
Depreciation and Amortization	52,012	43,187	38,989
Total Operating Expenses	255,610	230,180	216,44
Operating Income	27,165	(8,436)	31,677
Interest Income	169	208	306
Interest Expense	45,868	45,183	43,306
Other Expense	464	165	129
Loss on Debt Extinguishment	932	-	1,552
(Loss) Income before Income (Loss) from Unconsolidated Joint Venture Investments and Discontinued Operations	(19,930)	(53,576)	(13,00
(Loss) Income from Unconsolidated Joint Ventures	(1,751)	(7,190)	(517
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	4,008	-	-
Net Income (Loss) from Unconsolidated Joint Venture Investments	2,257	(7,190)	(517
(Loss) Income from Continuing Operations	(17,673)	(60,766)	(13,52
Discontinued Operations:			
Gain on Disposition of Hotel Properties	347	1,869	2,888
Income from Discontinued Operations	124	439	204
Income from Discontinued Operations	471	2,308	3,092
Net (Loss) Income	(17,202)	(58,458)	(10,42

Loss (Income) Allocated to Noncontrolling Interests	845	8,597	1,621
Preferred Distributions	(4,800)	(4,800)	(4,800
Net (Loss) Income applicable to Common Shareholders	$(21,157)	$(54,661)	$(13,60
Basic (Loss) Income from Continuing Operations applicable to Common Shareholders	$(0.16)	$(1.08)	$(0.31
Diluted (Loss) Income from Continuing Operations applicable to Common Shareholders (1)	(0.16)	(1.08)	(0.31
Dividends declared per Common Share	0.20	0.33	0.72

24

Table of Contents

	2010	2009	2008	2007	2006
Balance Sheet Data					
Net investment in hotel properties	$1,245,851	$938,954	$982,082	$893,297	$807,784
Assets Held for Sale	-	21,073	-	-	-
Noncontrolling Interests Common Units	19,410	27,126	34,781	42,845	25,933
Redeemable Noncontrolling Interest	19,894	14,733	18,739	-	-
Noncontrolling Interests Consolidated Joint Ventures	474	267	1,854	1,908	3,092
Shareholder's equity	683,434	302,197	349,963	330,405	331,619
Total assets	1,457,277	1,111,044	1,178,405	1,067,607	968,208
Total debt	694,720	724,551	743,781	663,008	580,542
Debt related to Assets Held for Sale	-	20,892	-	-	-
Other Data					
Funds from Operations (2)	$31,373	$(15,912)	$31,441	$49,823	$25,936
Net cash provided by operating activities	$46,246	$21,532	$53,894	$59,300	$27,217
Net cash used in investing activities	$(314,358)	$(8,921)	$(114,870)	$(46,027)	$(413,881)
Net cash provided by (used in) financing activities	$322,304	$(16,904)	$64,346	$(11,262)	$388,200
Weighted average shares outstanding					
Basic	134,370,172	51,027,742	45,184,127	40,718,724	27,118,264
Diluted (1)	134,370,172	51,027,742	45,184,127	40,718,724	27,118,264

(1) Income allocated to noncontrolling interest in HHLP has been excluded from the numerator and Partnership units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact.

(2) See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Funds From Operations” for an explanation of FFO, why we believe FFO is a meaningful measure of our operating performance and a reconciliation of FFO to net income calculated in accordance with GAAP.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements appearing in this Item 7 are forward-looking statements within the meaning of the federal securities laws. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. See "CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS" for additional information regarding our forward-looking statements.

BACKGROUND

As of December 31, 2010, we owned interests in 77 hotels, many of which are located in clusters around major markets in the Northeastern Corridor, including 62 wholly-owned hotels and interests in 15 hotels owned through consolidated and unconsolidated joint ventures. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of December 31, 2010, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. The TRS directly receives all revenue from, and funds all expenses relating to, hotel operations. The TRS is also subject to income tax on its earnings.

OVERVIEW

We believe 2010 was a transformative year for the lodging industry generally, lodging fundamentals in the markets on which we focus, and for our Company in particular. In mid-2008, U.S. lodging demand started to decline as a result of the economic recession, which led industry RevPAR to decline. Throughout 2009, the decrease in lodging demand accelerated, resulting in one of the largest RevPAR declines ever in the modern lodging industry. The economic recession generally, and turmoil in the financial markets in particular, caused credit to significantly tighten, making it more difficult for hotel developers to obtain financing for development projects or for hotels with limited operating history. Early in 2010, fundamentals in the U.S. lodging industry began showing signs of improvement with demand for rooms increasing in many major markets, as general economic indicators began to experience improvement. As a result, the lodging industry experienced increases in occupancy in the early and middle parts of 2010, and with increasing demand, rates began to rebound in the middle and latter parts of the year, particularly in major urban markets such as New York, Boston and Washington, D.C. These positive trends continued, strengthened and expanded to other markets during the latter part of the year, which we expect positions the lodging industry for continued growth in ADR and RevPAR during 2011.

During this same period, we took steps to better position our portfolio and our Company to take advantage of the anticipated economic recovery. During 2010, we accessed the equity capital markets three times, raising a total of approximately $421.7 million in net proceeds from sales of common shares. In late 2010, we refinanced our primary credit facility with a syndicate of eleven major financial institutions, expanding the facility from $135 million to $250 million of total capacity and extending the maturity into late 2013. These improvements to our overall capitalization improved our financial stability and flexibility coming out of the economic downturn.

We simultaneously repositioned our portfolio to focus more on high barrier to entry and major urban markets -- New York and Washington D.C. in particular. In the latter part of 2009 and throughout 2010, we acquired nine hotels --

including five in New York and one in Washington, D.C., bringing our New York City portfolio to 13 hotels comprising a substantial portion of our overall portfolio performance. Already in 2011, we have committed to acquiring a hotel on Capitol Hill in Washington, D.C. During 2010, we also began renovations programs at nine properties, accelerating those projects in our core markets in an effort to take advantage of what we expect to be stronger market conditions and operating fundamentals in the middle to late part of 2011. These efforts to reposition our portfolio are already showing results. As shown on the tables below under "Summary of Operating Results," in 2010, we grew occupancy by 3.3 percentage points, ADR by 7.9% and RevPAR by 13.2% across our consolidated hotels. Increases were similar, but less substantial, across our joint venture portfolio.

As we enter 2011, we believe the improvements in our equity and debt capitalization and repositioning of our portfolio better enables us to capitalize on further improvements in lodging fundamentals. During 2011, we expect continued improvements in ADR, RevPAR and operating margins, led by hotels in our core urban markets of New York, Boston and Washington. We will continue to seek acquisition opportunities in urban centers, central business districts, primary suburban markets and stable secondary markets. In addition, we are looking, and will continue to look, for attractive opportunities to dispose of properties in tertiary markets at favorable prices, potentially redeploying that capital in our focus markets. We do not expect to actively pursue acquisitions made through joint ventures; however, we may seek to buyout, or sell our joint venture interest to, select existing joint venture partners. We do not expect to actively pursue additional development loans or land leases. While property joint ventures, development loans and land leases played an important role in our growth over the last five years, we do not expect them to play the same role in our near-term future.

Table of Contents

Although we are planning for continued stabilization and improvement in consumer and commercial spending and lodging demand during 2011, the manner in which the economy will recover is not predictable, and certain core economic metrics, including unemployment, are not rebounding as quickly as many had hoped. In addition, the market for hotel level financing for new hotels is not recovering as quickly as the economy or broader financial markets. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Further, we cannot assure that we will not experience defaults under our development loans. The lack of financing for our borrowers and potential buyers may result in borrower defaults or prevent borrowers or us from disposing of properties held for sale. Factors that might contribute to less than anticipated performance include those described under the heading "Item 1A. Risk Factors" and other documents that we may file with the SEC in the future. We will continue to cautiously monitor recovery in lodging demand and rates, our third party hotel managers, our remaining portfolio of hotel development loans and our performance generally.

SUMMARY OF OPERATING RESULTS

The following table outlines operating results for the Company's portfolio of wholly owned hotels and those owned through joint venture interests that are consolidated in our financial statements for the three years ended December 31, 2010, 2009 and 2008:

CONSOLIDATED HOTELS:

	Year Ended 2010	Year Ended 2009	2010 vs. 2009 % Variance	Year Ended 2008	2009 vs. 2008 % Variance
Rooms Available	2,747,788	2,379,919	15.5 %	2,242,629	6.1 %
Rooms Occupied	1,941,862	1,603,264	21.1 %	1,609,950	-0.4 %
Occupancy	70.67 %	67.37 %	3.3 %	71.79 %	-4.4 %
Average Daily Rate (ADR)	$136.27	$126.23	7.9 %	$140.51	-10.2 %
Revenue Per Available Room (RevPAR)	$96.30	$85.04	13.2 %	$100.87	-15.7 %
Room Revenues	$264,609,257	$202,386,640	30.7 %	$226,219,989	-10.5 %
Hotel Operating Revenues	$277,707,839	$212,352,643	30.8 %	$236,246,808	-10.1 %

The following table outlines operating results for the three years ended December 31, 2010, 2009 and 2008 for hotels we own through an unconsolidated joint venture interest. These operating results reflect 100% of the operating results of the property including our interest and the interests of our joint venture partners and other noncontrolling interest holders. This table excludes the operations of the Hilton Garden Inn, Glastonbury, CT and Homewood Suites, Glastonbury, CT. On January 1, 2010, we acquired our joint venture partner's membership interest in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and this hotel became one of our wholly-owned hotels. As a result of this transaction, our joint venture partner acquired our membership interest in PRA Suites at Glastonbury, LLC, the owner of the Homewood Suites, Glastonbury, CT. In addition, this table excludes the operations of the Courtyard South Boston, MA. On April 13, 2010, this hotel became one of our consolidated joint venture properties due to our acquisition of the mortgage note secured by Courtyard South Boston, MA. The acquisition of this mortgage note caused us to be the primary beneficiary of the joint venture that owns the Courtyard South Boston, MA.

UNCONSOLIDATED JOINT VENTURES:

	Year Ended 2010	Year Ended 2009	2010 vs. 2009 % Variance	Year Ended 2008	2009 vs. 2008 % Variance
Rooms Available	797,160	797,157	0.0 %	963,892	-17.3 %
Rooms Occupied	537,686	510,739	5.3 %	677,485	-24.6 %
Occupancy	67.45 %	64.07 %	3.4 %	70.29 %	-6.2 %
Average Daily Rate (ADR)	$136.76	$134.61	1.6 %	$146.91	-8.4 %
Revenue Per Available Room (RevPAR)	$92.24	$86.24	7.0 %	$103.26	-16.5 %
Room Revenues	$73,532,283	$68,750,708	7.0 %	$99,530,317	-30.9 %
Total Revenues	$94,826,036	$90,020,445	5.3 %	$127,874,193	-29.6 %

RevPAR for the year ended December 31, 2010 increased 13.2% for our consolidated hotels and increased 7.0% for our unconsolidated hotels when compared to the same period in 2009. This represents a growth trend in RevPAR experienced during the year ended December 31, 2010 over the same period in 2009. This growth trend in RevPAR is primarily due to improving economic conditions in 2010 and the acquisition of hotel properties in 2010 that are accretive to RevPAR.

Table of Contents

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2010 TO DECEMBER 31, 2009
(dollars in thousands, except per share data)

Revenue

Our total revenues for the year ended December 31, 2010 consisted of hotel operating revenues, interest income from our development loan program, and other revenues. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenues increased $65,356, or 30.8%, from $212,352 for the year ended December 31, 2009 to $277,708 for the same period in 2010. This increase in hotel operating revenues was primarily attributable to the acquisitions consummated in 2010 and 2009.

We acquired interests in the following six consolidated hotels which contributed the following operating revenues for the year ended December 31, 2010:

Brand	Location	Acquisition Date	Rooms		Hotel Operating Revenues
Hilton Garden Inn	Glastonbury, CT	January 1, 2010	150		5,046
Hampton Inn	Times Square, NY	February 9, 2010	184		11,188
Candlewood Suites	Times Square, NY	February 9, 2010	188		9,215
Holiday Inn Express	Times Square, NY	February 9, 2010	210		12,278
Holiday Inn	Wall Street, NY	May 7, 2010	113		4,496
Hampton Inn	Washington, DC	September 1, 2010	228		3,923
			1,073	$	46,146

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2010 included revenues for a full year related to two hotels that were purchased during the year ended December 31, 2009. Hotels acquired during the year ended December 31, 2009 would have a full year of results included in the year ended December 31, 2010 but not necessarily a full year of results during the same period in 2009. We acquired interests in the following two consolidated hotels during the year ended December 31, 2009:

Brand	Location	Acquisition Date	Rooms		2010 Hotel Operating Revenues		2009 Hotel Operating Revenues
Hilton Garden Inn	TriBeCa, New York, NY	May 1, 2009 *	151	$	11,675	$	6,761
Hampton Inn & Suites	West Haven, CT	November 4, 2009	98		2,746		374
			249	$	14,421	$	7,135

*We acquired a 49% interest in the entity that owns the property on May 1, 2009 and acquired the remaining 51% interest on June 30, 2009.

In addition, our existing portfolio experienced improvement in ADR and occupancy during the year ended December 31, 2010 when compared to the same period in 2009. Occupancy in our consolidated hotels increased 340 basis points from approximately 67.4% during the year ended December 31, 2009 to approximately 70.7% for the same period in 2010. ADR improved 7.9%, increasing from $126.23 for the year ended December 31, 2009 to $136.27 during the same period in 2010. These improvements were due to improvements in lodging trends in the markets in which we operate.

We have invested in hotel development projects by providing mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income is earned on our development loans at rates ranging between 10.0% and 20.0%. Interest income from development loans receivable was $4,686 for the year ended December 31, 2010 compared to $7,411 for the same period in 2009. The decrease in interest income from development loans receivable was due to a decrease in the average balance of development loans receivable outstanding in 2010 due primarily to the settlement of $7.0 million in development loans receivable which was converted into equity in a hotel acquisition. Also contributing to the decrease in interest income from development loans was the impairment of certain loans in 2009.

As hotel developers are engaged in constructing new hotels or renovating existing hotels the hotel properties are typically not generating revenue. It is common for the developers to require construction type loans to finance the projects whereby interest incurred on the loan is not paid currently; rather it is added to the principal borrowed and repaid at maturity. On June 30, 2009, we amended four development loans, with an aggregate principal balance of $40,000 prior to the amendment, to allow the borrower to elect, quarterly, to pay accrued interest in-kind by adding the accrued interest to the principal balance of the loan. As a result, $5,653 in accrued interest on these loans was added to principal since July 1, 2009.

Table of Contents

Of the $41,653 in development loans receivable outstanding as of December 31, 2010, $8,000, or 19.2%, is invested in hotels that are currently operating and generating revenue and $33,653, or 80.8%, is invested in hotel construction projects with significant progress made toward completion.

Other revenue consists primarily of fees earned for asset management services provided to properties owned by certain of our unconsolidated joint ventures and land lease revenue. These fees are earned as a percentage of the revenues of the unconsolidated joint ventures' hotels. Other revenues decreased from $1,981 for the year ended December 31, 2009 to $381 during the year ended December 31, 2010 primarily due to the exit of our two remaining land leases. Because of the economic challenges facing hotel development projects, especially those that are in the early phase of development, we decided during the quarter ended September 30, 2009 to exit our two remaining land leases and dispose of the related land parcels.

Expenses

Total hotel operating expenses increased 27.7% to approximately $158,717 for the year ended December 31, 2010 from $124,294 for the year ended December 31, 2009. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2009, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization from $43,187 for the year ended December 31, 2009 to $52,012 for the year ended December 31, 2010. Similarly, real estate and personal property tax and property insurance increased $5,275, or 37.5%, in the year ended December 31, 2010 when compared to the same period in 2009 due to numerous New York acquisitions which carry a high tax rate along with a general overall increase in tax assessments and tax rates as the economy improves.

General and administrative expense increased by approximately $4,372 from $5,891 in 2009 to $10,263 in 2010. Discretionary incentive compensation related to the 2009 fiscal year was determined subsequent to December 31, 2009. As result, incentive compensation of $1,256 earned for the year ended December 31, 2009 was recorded in 2010. Incentive compensation of $1,720 earned for the year ended December 31, 2010 was accrued in the fourth quarter of 2010. In addition, compensation expense increased in 2010 due to increases in employee headcount and increases in base compensation.

Non-cash stock based compensation expense increased $4,506 when comparing the year ended December 31, 2010 to the same period in 2009. In August of 2009, our Compensation Committee established a performance share award program which resulted in $725 in compensation expense during the year ended December 31, 2010 and $140 in compensation expense during the same period in 2009. In April of 2010, our Compensation Committee adopted an annual long term equity incentive program and a multi-year long term equity incentive program. Non-cash compensation expense of $3,397 was recorded in 2010 related to these two programs. Please refer to "Note 9 – Share Based Payments" of the notes to the consolidated financial statements for more information about our stock based compensation.

Included in operating expenses for the year ended December 31, 2009 was an impairment charge of $17,703 recorded on two parcels of land and a hotel. During the year ended December 31, 2010 we determined an additional impairment charge of $2,433 was incurred on one of these parcels of land and the hotel as conditions in these specific markets worsened. Also during the year ended December 31, 2009, we determined that two of our development loans were permanently impaired and, accordingly, we recorded an impairment charge for the remaining principal on these loans in the aggregate amount of $21,408.

Acquisition and terminated transaction costs increased $4,499 from $328 for the year ended December 31, 2009 to $4,827 for the year ended December 31, 2010 due to acquisitions consummated during period ended December 31, 2010. Of these costs incurred, $3,269 related to our acquisition of three hotels acquired in the vicinity of Times

Square in New York, NY, $21 related to our acquisition of the Hilton Garden Inn, Glastonbury, CT, $174 related to our acquisition of the Holiday Inn Wall Street in New York, NY, and $1,196 related to our acquisition of the Hampton Inn, Washington, D.C. The remaining costs related to transactions that were terminated during the year. Two acquisitions were consummated during the same period in 2009. Acquisition costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property.

Unconsolidated Joint Venture Investments

Our interest in the income from unconsolidated joint ventures was $2,257 for the year ended December 31, 2010 compared to a loss of $7,190 for the same period in 2009. Our income from unconsolidated joint ventures for the period ended December 31, 2010 was due, in part, to a $1,818 gain recognized from the remeasurement of our interest in PRA Glastonbury, LLC the owner of the Hilton Garden Inn, Glastonbury, CT, upon our acquisition of our joint venture partner's 52.0% interest in the venture. In addition, we recorded a $2,190 gain recognized from the remeasurement of our interest in Hiren Boston, LLC, the owner of the Courtyard South Boston, MA. Included in the loss from unconsolidated joint ventures for the year ended December 31, 2009 was an impairment charge of $4,541. Please refer to "Note 3 – Investment in Unconsolidated Joint Ventures" of the notes to the consolidated financial statements for the year ended December 31, 2010 and 2009 for more information about the remeasurement of our interests in PRA Glastonbury, LLC and Hiren Boston, LLC. RevPAR for our unconsolidated hotel portfolio increased 7.0% during the year ended December 31, 2010 when compared to the year ended December 31, 2009, which contributed to the increase in income from unconsolidated joint ventures.

Table of Contents

Net Income/Loss

Net loss applicable to common shareholders for the year ended December 31, 2010 was $21,157 compared to net loss applicable to common shareholders of $54,661 for the same period in 2009. This improvement was driven primarily by an increase in operating income. Operating income for the year ended December 31, 2010 was $27,165 compared to operating loss of $8,436 during the same period in 2009. We recorded a gain of $1,869 on the disposition of hotel properties during the year ended December 31, 2009, compared to a $347 gain during the same period in 2010.

Interest expense increased $685 from $45,183 for the year ended December 31, 2009 to $45,868 for the year ended December 31, 2010. Overall, interest expense has remained consistent with our steady debt balance throughout 2010. We incurred $932 of loss on the extinguishment of $54,684 of mortgage indebtedness and notes payable. Proceeds from equity offerings consummated during the year were used to extinguish this debt. The loss on the extinguishment of debt related primarily to write-off of remaining unamortized deferred financing costs at the time of the extinguishment.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2009 TO DECEMBER 31, 2008
(dollars in thousands, except per share data)

Revenue

Our total revenues for the year ended December 31, 2009 consisted of hotel operating revenues, interest income from our development loan program, and other revenue. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenues decreased $23,895, or 10.1%, from $236,247 for the year ended December 31, 2008 to $212,352 for the same period in 2009. This decrease resulted from decreases in both ADR and occupancy. ADR decreased 10.2% from $140.51 for year ended December 31, 2008 to $126.23 during the same period in 2009. Our occupancy rate decreased 439 basis points from approximately 71.8% during the year ended December 31, 2008 to approximately 67.4% for the same period in 2009.

The decrease in hotel operating revenues was only partially offset by the additional hotel operating revenues attributed to the following acquisitions consummated during the year ended December 31, 2009:

Brand	Location	Acquisition Date	Rooms	2009 Hotel Operating Revenues
Hilton Garden Inn	TriBeCa, New York, NY	May 1, 2009 *	151	$ 6,761
Hampton Inn & Suites	West Haven, CT	November 4, 2009	98	374
			249	$ 7,135

*We acquired a 49% interest in the entity that owns the property on May 1, 2009 and acquired the remaining 51% interest on June 30, 2009.

Revenues for both hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2009 included revenues for a full year related to six hotels that were purchased during the year ended December 31, 2008. Hotels acquired during the year ended December 31, 2008 would have a full year of results included in the year ended December 31, 2009 but not necessarily a full year of results during the same period in 2008.

Table of Contents

We acquired interests in the following six consolidated hotels during the year ended December 31, 2008:

Brand	Location	Acquisition Date	Rooms	2009 Hotel Operating Revenue	2008 Hotel Operating Revenue
Duane Street Hotel (TriBeCa)	New York, NY	1/4/2008	45	$ 2,836	$ 3,688
TownePlace Suites	Harrisburg, PA	5/8/2008	107	2,440	1,755
Sheraton Hotel	JFK Airport, Jamaica, NY	6/13/2008	150	7,869	3,931
Holiday Inn Express	Camp Springs, MD	6/26/2008	127	2,587	1,313
nu Hotel	Brooklyn, NY	7/7/2008*	93	4,488	2,314
Hampton Inn & Suites	Smithfield, RI	8/1/2008	101	2,033	848
			623	$ 22,253	$ 13,849

* The property was purchased on January 14, 2008 but did not open for business until July 7, 2008.

We have invested in hotel development projects by providing mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income is earned on our development loans at rates ranging between 10.0% and 20.0%. Interest income from development loans receivable was $7,411 for the year ended December 31, 2009 compared to $7,890 for the same period in 2008. The decrease in interest income from development loans receivable was due to a decrease in the average balance of development loans receivable outstanding in 2009 and cessation of interest accrual on certain loans that were deemed to be impaired, which resulted in a $98, or 32.0% decrease in interest income.

On June 30, 2009, we amended four development loans, with an aggregate principal balance of $40,000 prior to the amendment, to allow the borrower to elect, quarterly, to pay accrued interest in-kind by adding the accrued interest to the principal balance of the loan. As a result, $4,502 in accrued interest on these loans was added to principal for the year ended December 31, 2009.

We monitor our development loan portfolio for indications of impairment considering the current economic environment, the borrowers’ access to other sources of financing to complete their hotel development projects, and the borrowers ability to repay amounts owed to us through the operation or eventual sale of the properties being financed by our loans receivable. Based on our reviews, we determined that our development loans to Brisam East 52, LLC and Brisam Greenwich, LLC, which were secured by the equity interest in each entity, were permanently impaired as of December 31, 2009. We ceased accruing interest on these two loans effective July 1, 2009.

During the year ended December 31, 2008, we recorded an impairment charge for one of our development loans to an unaffiliated developer for the remaining principal of $18,748, which is net of unamortized discount and loan fees in the amount of $1,252. The loan was deemed to be fully impaired when the developer was unable to obtain additional construction financing to complete the project and consequently defaulted under his senior mortgage loan. The project, located in Brooklyn, NY, was to include hotel, residential and retail components, however, the land acquisition financing and our loan were not sufficient to fund the ongoing construction. A receivable for uncollected interest income of $569, which is net of unrecognized deferred loan fees of $143, was also recorded as an impairment charge. In connection with the development loan, we also hold an option to acquire an interest in the hotel upon completion of the development project. This option was valued at $1,687 at its inception and is deemed to be fully impaired. The total impairment charge recorded during the year ended December 31, 2008 related to this development loan and option was $21,004.

Of the $46,094 in development loans receivable outstanding as of December 31, 2009, $15,000, or 32.5%, is invested in hotels that are currently operating and generating revenue and $31,094, or 67.5%, is invested in hotel construction projects with significant progress made toward completion. We have written off and no longer reflect any value for development loans to hotel development projects that are in the early phase of development where development has been limited to land acquisition and site preparation.

Other revenue consists primarily of fees earned for asset management services provided to properties owned by certain of our unconsolidated joint ventures. These fees are earned as a percentage of the revenues of the unconsolidated joint ventures' hotels. Other revenues decreased from $3,984 for the year ended December 31, 2008 to $1,981 during the year ended December 31, 2009 primarily due to a decrease in asset management as a result of declining revenues at properties owned by certain of our unconsolidated joint ventures.

Expenses

Total hotel operating expenses decreased 7.1% to approximately $124,294 for the year ended December 31, 2009 from $133,762 for the year ended December 31, 2008. As a result of declining hotel operating revenues, our hotel operators implemented cost reduction and cost containment initiatives to reduce hotel operating expenses. Decreases in our hotel operating expenses resulting from lower occupancies and our operators cost reduction initiatives were partially offset by increases in hotel operating expenses due to the acquisitions consummated since January 1, 2008, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization from $38,989 for the year ended December 31, 2008 to $43,187 for the year ended December 31, 2009. Similarly, real estate and personal property tax and property insurance increased $1,501, or 12.0%, in the year ended December 31, 2009 when compared to the same period in 2008.

Table of Contents

General and administrative expense decreased by approximately $1,317 from $7,208 in 2008 to $5,891 in 2009. As of December 31, 2009, discretionary incentive compensation related to 2009 fiscal year had not been determined and, accordingly, no expense had been accrued. General and administrative expense for the year ended December 31, 2008 included a charge of $1,253 for incentive compensation related to the 2008 fiscal year. Non-cash stock based compensation expense increased $641 when comparing the year ended December 31, 2009 to the same period in 2008 as a result of increased vesting of restricted shares and performance shares issued and earned during the year ended December 31, 2009.

Unconsolidated Joint Venture Investments

For the year ended December 31, 2009, we recorded $7,190 in loss from unconsolidated joint ventures compared to $517 in loss from unconsolidated joint ventures for the same period in 2008.

Included in the loss from unconsolidated joint ventures for the year ended December 31, 2009 was an impairment charge of $4,541. Through our investment in Hiren Boston, LLC joint venture, we have a 50% interest the Courtyard, South Boston, MA. We determined that our interest in this hotel was impaired and, as of December 31, 2009, we recorded an impairment loss of approximately $3,500 which represents our entire investment in the hotel. Through our investment in PRA Suites at Glastonbury, LLC joint venture, we have a 48% interest in the Homewood Suites, Glastonbury, CT. In 2009, we entered into an agreement to transfer our interest in this hotel to our joint venture partner as partial consideration for the purchase of our joint venture partner's 52% interest in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT. This transaction closed effective January 1, 2010. We determined that the carrying value of our interest in the Homewood Suites, Glastonbury, CT exceeded fair value and, as of December 31, 2009, we recorded an impairment loss of $1,041. As a result of this transaction, as of January 1, 2010 we own a 100% interest in the Hilton Garden Inn, Glastonbury, CT and have no remaining interest in the Homewood Suites, Glastonbury, CT. The purchase of the Hilton Garden Inn, Glastonbury, CT in 2010 resulted in a $1,818 gain as a result of applying purchase accounting and the subsequent remeasurement of our previously held 48% interest was recorded in the first quarter of 2010.

Through our investment in the Mystic Partners, LLC joint venture, we have an 8.8% interest in the Hilton Hotel in Hartford, CT. In 2008, we determined that our interest in this hotel was impaired. As of December 31, 2008, we recorded an impairment loss of approximately $1,890 which represents our entire investment in the hotel.

For the year ended December 31, 2009, loss from our investment in unconsolidated joint ventures, excluding the impairment charges noted above, was $2,649. This compares to income from our investment in unconsolidated joint ventures, excluding the impairment charges noted above, of $1,373 for the same period in 2008. This decrease was the result of deteriorating revenues in the hotels owned by our unconsolidated joint ventures. The operating factors impacting the results of our hotels owned by our unconsolidated joint ventures are consistent with those described above in the discussion of our consolidated hotels, and include declining ADR, occupancy and RevPAR.

Net Income/Loss

Net loss applicable to common shareholders for year ended December 31, 2009 was $54,661 compared to net loss applicable to common shareholders of $13,608 for the same period in 2008.

Operating loss for the year ended December 31, 2009 was $8,436 compared to operating income of $31,677 during the same period in 2008. The $40,113, or 126.6%, decrease in operating income was primarily the result of the impairment charge of $21,408 related to our investment in a development loan and an option to acquire the hotel property upon completion, noted above.

Also contributing to the net loss recorded during the year ended December 31, 2009 was an impairment charge of $17,703 recorded on two parcels of land and a hotel, each of which is classified as held for sale as of December 31, 2009. Due to the economic challenges facing hotel development projects, especially those that are in the early phase of development, we decided during the quarter ended September 30, 2009 to exit our two remaining land leases and dispose of the related land parcels. Effective July 1, 2009, we ceased accruing rents under these leases. We determined that the carrying value of the land exceeded fair value and we recorded an impairment of $14,545. We also determined that accrued rents under the leases were uncollectible and accrued rents receivable of $1,579 was expensed during the year ended December 31, 2009. In addition, we committed to a plan to sell one of our hotels and determined that carrying value of this property exceeded fair value by $1,558 which was recorded as an impairment charge during the year ended December 31, 2009.

In addition, we recorded a gain of $2,888 on the disposition of hotel properties during the year ended December 31, 2008, compared to a $1,869 gain during the same period in 2009.

Table of Contents

Interest expense increased $1,877 from $43,306 for the year ended December 31, 2008 to $45,183 for the year ended December 31, 2009. The increase in interest expense is the result of mortgages placed on newly acquired properties and increased average balances on our line of credit.

LIQUIDITY, CAPITAL RESOURCES, AND EQUITY OFFERINGS
(dollars in thousands, except per share data)

Debt and Equity Offerings

The ability to originate or refinance existing loans has become and continues to be very restrictive for all borrowers, even for those borrowers that have strong balance sheets. While we maintain a portfolio of what we believe to be high quality assets and we believe our leverage to be at acceptable levels, the market for new debt origination and refinancing of existing debt remains challenging and visibility on the length of debt terms, the loan to value parameters and loan pricing on new debt originations is limited.

Our organizational documents do not limit the amount of indebtedness that we may incur. In the current economic environment, the fair market value of certain of our hotel properties may have declined causing some of our indebtedness to exceed the percentage of an individual hotel property's fair market value our Board of Trustees intended at the time we acquired the property.

Our ability to incur additional debt is dependent upon a number of factors, including the current state of the overall credit markets, our degree of leverage and borrowing restrictions imposed by existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, capital market volatility, risk tolerance of investors, general market conditions for REITs and market perceptions related to the Company's ability to generate cash flow and positive returns on its investments.

Prior to November 5, 2010, we maintained a revolving credit facility with a syndicate of lenders that had committed up to $135,000. On November 5, 2010, we entered into a new revolving credit facility, which provides for a revolving line of credit in the principal amount of up to $250,000. Our previous line of credit, which allowed for borrowings of up to $135,000 was replaced by this new line, and the new line of credit allows us additional borrowing capacity for future acquisitions and working capital. As of December 31, 2010, we had $46,000 in borrowings under the line of credit and $6,927 in letters of credit outstanding under this facility resulting in a remaining borrowing capacity under the line of credit of $197,073. The new line of credit expires on November 5, 2013 and includes an extension of the maturity date until November 5, 2014 at the sole discretion of the lenders. We intend to repay indebtedness incurred under the new line of credit from time to time, for acquisitions or otherwise, out of cash flow from operations and from the proceeds of issuances of additional common shares and other securities. For additional information regarding our revolving credit facility, including important terms, covenants and financial ratios, see "Note 6 – Debt" in our consolidated financial statements included herein.

We will continue to monitor our debt maturities to manage our liquidity needs. However, no assurances can be given that we will be successful in refinancing all or a portion of our future debt obligations due to factors beyond our control or that, if refinanced, the terms of such debt will not vary from the existing terms. As of December 31, 2010, we have $17,861 coming due on or before December 31, 2011. We currently expect that cash requirements for all debt that is not refinanced by our existing lenders will be met through a combination of cash on hand, refinancing the existing debt with new lenders, draws on our credit facility and issuing public debt or equity.

During 2010, we completed three public offerings, in which 108,100,000 common shares were sold by us through several underwriters for net proceeds to us of approximately $421,734 before the payment of offering-related expenses. Immediately upon closing of each offering, we contributed all of the net proceeds of the offering to HHLP in exchange for additional common units of limited partnership in HHLP, or Common Units. Aggregate offering-related expenses associated with these three offerings were approximately $1,293, resulting in net proceeds after expenses of $420,441.

Development Loans Receivable

The current borrowing environment has made it difficult for our development loan borrowers to obtain or renew construction financing to complete certain hotel development projects for which we have provided development loan financing. As of December 31, 2010, we have $41,653 in development loan principal receivable and $3,013 in accrued interest receivable on these loans.

Each of these loans matures at some time within the next twelve to eighteen months. Most of our development loans have options to extend the maturity of the loan for periods up to three years from the original maturity date of the loan. Each of these development loans also provides us with a right of first offer on hotels constructed through the development loan program. We expect most development loan borrowers to take advantage of these extension options. In addition, we may convert the principal and interest due to us on those development loans that are not extended into equity interests in the hotels developed allowing us to acquire new hotel properties without a significant additional outlay of cash.

Table of Contents

In addition, the contractual terms of two development loans allow borrowers the option to add accrued interest to the loan principal in lieu of making current interest payments. As a result of these amendments, $2,559 of accrued interest was added to loan principal for year ended December 31, 2010. We do not expect the payments of principal or accrued interest on the development loans to be a significant source of liquidity over the next twelve to eighteen months.

Acquisitions

On January 1, 2010, we acquired our joint venture partner's 52% membership interest in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and this hotel became one of our wholly-owned hotels.

On February 9, 2010, we completed the acquisition of a Hampton Inn, a Holiday Inn Express and a Candlewood Suites located in the area of Times Square, New York, NY. The total purchase price for the three hotels was $166,089 and consisted of $160,500 in cash, $290 in franchise fees and 1,451,613 Common Units. In addition, we paid closing costs of $3,228 and acquired approximately $63 in net working capital assets. Cash required for this acquisition was generated primarily from the net proceeds of our recently completed public offering of common shares and borrowings under our line of credit.

On May 7, 2010, we entered into a contribution agreement with an unrelated third party and closed on the acquisition of 100% of the membership interests in Maiden Hotel LLC, the owner of the Wall Street Holiday Inn, New York, NY. The aggregate purchase price paid for the membership interests in Maiden Hotel LLC was approximately $34,876. The purchase price paid included the issuance of 200,000 Common Units, valued at $957, the settlement of $7,839 of existing mezzanine financing and accrued interest income, $57 in franchise fees and the payment of approximately $26,023 in cash provided, in part, from borrowings under our existing line of credit. Upon completion of the acquisition of the membership interests, the hotel owned by Maiden Hotel LLC was unencumbered of debt. In addition, we paid closing costs of $151 and acquired approximately $511 in net working capital.

On September 1, 2010, we entered into a purchase and sale agreement with an unrelated third party and closed on the acquisition of Hampton Inn, Washington, DC. The total purchase price for this hotel was $73,096 and consisted of $72,988 in cash and $108 in franchise fees. In addition, we paid closing costs of $1,188 and acquired approximately $304 in net working capital assets.

On December 28, 2010 we closed on the acquisition of a parcel of land which included a multi-story vacant hotel building with an unrelated third party in New Castle, DE. The total purchase price for this hotel was $15,301, which was paid in cash. We have begun the process of converting this hotel building into a Sheraton. The conversion is currently budgeted at $5.5 million and has an estimated completion date of June 2011.

Purchase agreements related to the Holiday Inn Express, Camp Springs, MD and Hampton Inn and Suites, Smithfield, RI hotels contained certain earn-out provisions that entitled the seller to a payment based on operating metrics of the hotel properties. As of December 31, 2010, the earnout period expired for these properties. These properties did not meet the required net operating income thresholds established in the properties' purchase agreements. As such, no amounts were paid or are payable to the sellers under these earn-out provisions.

We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in hotels will depend on and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of common or preferred shares, issuances of Common Units, issuances of preferred units or other securities or borrowings.

Operating Liquidity and Capital Expenditures

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 line of credit. We believe that the net cash provided by operations in the coming year will be adequate to fund the Company's operating requirements, monthly recurring debt service and the payment of dividends in accordance with REIT requirements of the federal income tax laws.

Beginning with our dividend declaration in the second quarter of 2009, the Company reduced its quarterly dividend payment by approximately 72% in order to preserve cash. As noted above, we issued common shares in public offerings and issued Common Units in connection with our acquisition of hotel properties. Assuming we continue to make distributions to our common shareholders and common unitholders at our current rate and assuming no additional common shares or common units are issued, these distributions would approximate $35,325 over the next twelve months. We cannot guarantee that we will continue to make distributions to our shareholders at the current rate or at all. While, due to the seasonality of our business, cash provided by operating activities fluctuates significantly from quarter to quarter, we believe, based on our current estimates, which include the addition of cash provided by hotels acquired in 2010, that our cash provided by operating activities will be sufficient over the next twelve months to fund the payment of our dividend at its current level. However, our Board of Trustees continues to evaluate the dividend policy in the context of our overall liquidity and market conditions and may elect to further reduce or suspend these distributions. Cash provided by operating activities for the year ended December 31, 2010 was $46,246 and cash used for the payment of distributions and dividends for the year ended December 31, 2010 was $30,253.

Table of Contents

Owning hotels is a capital intensive enterprise. Hotels are expensive to acquire or build and require regular significant capital expenditures to satisfy guest expectations. However, even with current depressed cash flows, we project that our operating cash flow and credit facility will be sufficient to satisfy almost all of our liquidity and other capital needs over the next twelve to eighteen months.

We make available to the TRS Lessees of our hotels 4% (6% for full service properties) of gross revenues per quarter, on a cumulative basis, for periodic replacement or refurbishment of furniture, fixtures and equipment at each of our hotels. We believe that this reserve is a prudent estimate for future capital expenditure requirements. During 2009, our hotel managers had implemented a policy of limiting capital expenditures to only those projects that impact safety to our guests or preserve the value of our hotel assets. As economic conditions have improved, we have begun to fund addition capital expenditures, including the lobby renovation of several of our hotels. In addition, we completed a renovation converting two of our existing adjoining hotel properties in King of Prussia, PA into one Hyatt Place during the third quarter of 2010. The total cost to complete this conversion was approximately $6,471, net of $1,200 received from the franchisor upon the completion of the conversion. The renovations were completed and the hotel opened on August 17, 2010. The cash required to complete this project was provided by cash from our equity offerings and operations, as well as borrowings under credit facility.

We have increased our spending on capital improvements during the year ended December 31, 2010 when compared to the same period in 2009. During the year ended December 31, 2010 we spent $10,328 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to $6,138 during the same period in 2009. Our increase in capital expenditures is a result of complying with brand mandated improvements and initiating projects that we believe will generate a return on investment as we enter a period of recovery in the lodging sector. We expect further expansion of our capital expenditures in 2011 in an effort to invest in projects that we believe will generate additional returns as economic conditions improve. We may spend amounts in excess of the obligated amounts if necessary to comply with the reasonable requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be in our best interests. We are also obligated to fund the cost of certain capital improvements to our hotels. We will use undistributed cash or borrowings under credit facilities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above.

CASH FLOW ANALYSIS
(dollars in thousands, except per share data)

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

Net cash provided by operating activities for the year ended December 31, 2010, and 2009, was $46,246 and $21,532, respectively. Primarily as a result of our acquisitions and improving ADR and occupancy at our wholly owned hotel properties, income before gain on disposition of hotel properties, impairment charges, depreciation and amortization, debt extinguishment and stock based compensation increased $24,495 during the year ended December 31, 2010 when compared to the same period in 2009.

Net cash used in investing activities for the year ended December 31, 2010 increased $305,437, from $8,921 in the year ended December 31, 2009 compared to $314,358 for the year ended December 31, 2010. During the year ended December 31, 2010, we used $280,731 to acquire seven properties. This compares to just $9,315 to acquire two properties during the same period in 2009. We have also funded $6,471 in construction costs for the conversion of two of our existing adjoined hotels into a Hyatt Place and a $5,500 deposit for the acquisition of hotel properties. In addition, we invested $13,750 to purchase a mortgage loan secured by the Courtyard by Marriott, located in South Boston, MA, a hotel which is owned by a joint venture in which we have a 50% ownership interest. Offsetting these increases in cash used in investing activities was a decrease of $2,000 in cash used to invest in development loans receivable for the year ended December 31, 2010 when compared to the same period in 2009.

Net cash provided by financing activities for the year ended December 31, 2010 was $322,304 compared to cash used in financing activities of $16,904 during the same period in 2009. During the year ended December 31, 2010, we issued 108,100,000 common shares resulting in net proceeds of $420,441. Net repayments under our credit facility were $33,200 during the year ended December 31, 2010 compared to net repayments of $9,221 during the same period in 2009. Net repayments of our mortgages and notes payable were $30,274 during the year ended December 31, 2010 compared to net proceeds of $2,923 during the same period in 2009.

Table of Contents

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

Net cash provided by operating activities for the year ended December 31, 2009, and 2008, was $21,532 and $53,894, respectively. Primarily as a result of declining ADR and occupancy at our wholly owned hotel properties, income before impairment charges, depreciation and amortization, and debt extinguishment decreased $27,380 during the year ended December 31, 2009 when compared to the same period in 2008. In addition, the modification of four development loans to allow borrowers the option to add accrued interest to the loan principal in lieu of making current interest payments resulted in $3,253 in current year development loan interest income that was added to principal and is not currently a source of operating cash. Cash from operating activities of $3,770 has also been used to fund increases in our escrow deposits. The increase in our escrow deposits is a result of reduced access to these funds due to decreases in our capital expenditures.

Net cash used in investing activities for the year ended December 31, 2009 decreased $105,949, from $114,870 in the year ended December 31, 2008 to $8,921 for the year ended December 31, 2009. During the year ended December 31, 2008, we acquired six properties for a total purchase price of $115,859, including the assumption of $30,790 in mortgage debt, the issuance of a $500 note payable, the assumption of $318 of operating liabilities and the issuance of units in our operating partnership valued at $21,624 resulting in net cash paid for acquisitions of $63,626. During the same period in 2009, we acquired two properties for a total purchase price of $80,000, including the assumption of $37,524 in mortgage debt, the assumption of $3,043 of operating liabilities, the conversion of $20,000 in development loans and accrued interest, the conveyance of land and accrued rent receivable with a net value of $10,118 and cash held back at settlement of $1,200 resulting in net cash paid for acquisitions of $9,315. We used $1,200 of the cash held back at settlement to facilitate the conveyance of land to the seller of the property during the year ended December 31, 2009. We decreased our capital expenditures from $19,226 during the year ended December 31, 2008 to $6,138 during the same period in 2009. This decrease was the result of our initiatives to defer capital expenditures where appropriate, reducing capital expenditures on a year over year basis. In addition, cash used to invest in development loans receivable, net of repayments, was $41,784 for the year ended December 31, 2008 compared to $1,500 for the same period in 2009. In addition, the sale of hotel properties during the year ended December 31, 2009 provided $8,524 in cash proceeds compared to $6,456 provided during 2008. Net cash distributions from unconsolidated joint ventures decreased $2,509 from net distributions received of $2,017 during 2008 to net contributions made of $492 in 2009, primarily as a result of declining operating results in the hotels owned by our unconsolidated joint ventures.

Net cash used in financing activities for the year ended December 31, 2009 was $16,904 compared to cash provided by financing activities of $64,346 for the year ended December 31, 2008. During year ended December 31, 2008, we issued 6,600,000 common shares resulting in net proceeds of $61,845. During the year ended December 31, 2009, we issued 8,442,300 common shares resulting in net proceeds of $21,339. The Company reduced its quarterly common dividend rate by 72% from $0.18 per share to $0.05 per share beginning with the dividend and distribution payment in July of 2009. Total dividends and distributions decreased $11,249 during the year ended December 31, 2009 when compared to the same period in 2008 due to the decrease in the rate of dividends and distributions, partially offset by an increase in dividend due to an increased number of shares outstanding. Net proceeds from mortgages and notes payable were $1,735 during the year ended December 31, 2008 compared to net proceeds of $2,923 for the same period in 2009. Net repayments of our credit facility were $9,221 during the year ended December 31, 2009 compared to net proceeds of $44,721 during the same period in 2008. The decrease in borrowings from our credit facility is a result of a decrease in acquisition activity requiring short term borrowings and an effort to lower debt levels.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

FUNDS FROM OPERATIONS
(in thousands, except share data)

The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Partnership units in accordance with the April 2002 National Policy Bulletin of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated assets, plus certain non-cash items, such as depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shares, includes depreciation and amortization expenses, gains or losses on property sales, minority interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations.

Table of Contents

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of Hersha's performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Partnership units because our Partnership units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Partnership units.

The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods.

	Twelve Months Ended		
	December 31, 2010	December 31, 2009	December 31, 2008
Net (loss) income applicable to common shares	$(21,157)	$ (54,661)	$ (13,608)
(Loss) income allocated to noncontrolling interest	(845)	(8,597)	(1,621)
Loss (income) from unconsolidated joint ventures	(2,257)	7,190	517
Gain on sale of assets	(347)	(1,869)	(2,888)
Depreciation and amortization	52,012	43,187	38,989
Depreciation and amortization from discontinued operations	87	1,098	2,429
FFO related to the noncontrolling interest in consolidated joint ventures (1)	(307)	(98)	(240)
Funds from consolidated hotel operations applicable to common shares and Partnership units	27,186	(13,750)	23,578
(Loss) income from unconsolidated joint ventures	2,257	(7,190)	(517)
Less:			
Gain from remeasurement of investment in unconsolidated joint ventures	(4,008)	-	-
Add:			
Depreciation and amortization of purchase price in excess of historical cost (2)	2,033	2,137	2,093
Interest in depreciation and amortization of unconsolidated joint venture (3)	3,905	2,891	6,287
Funds from unconsolidated joint ventures operations applicable to common shares and Partnership units	4,187	(2,162)	7,863
Funds from Operations applicable to common shares and Partnership units	$31,373	$ (15,912)	$ 31,441
Weighted Average Common Shares and Units Outstanding			
Basic	134,370,172	51,027,742	45,184,127
Diluted	146,656,308	59,752,467	53,218,864

(1) Adjustment made to deduct FFO related to the noncontrolling interest in our consolidated joint ventures; represents the portion of net income and depreciation allocated to our joint venture partners.
(2) Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.
(3) Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures.

Comparison of the year ended December 31, 2010 to December 31, 2009

FFO was $31,373 for the year ended December 31, 2010, which was an increase of $47,285 or 297.2% over FFO in the comparable period in 2009, which was a deficit of $15,912. FFO for the year ended December 31, 2009 was negatively impacted by impairment charges of $39,111 incurred during the twelve months ended December 31, 2009 compared to $2,433 incurred during the same period in 2010. The increase in FFO was also a result of the acquisitions consummated in 2010 and 2009 and a strengthening economy.

Comparison of the year ended December 31, 2009 to December 31, 2008

FFO was a deficit of $15,912 for the year ended December 31, 2009, which was a decrease of $47,353 or 150.6%, over FFO in the comparable period in 2008, which was $31,441. FFO for year ended December 31, 2009 was negatively impacted by impairment charges of $39,111 incurred during the twelve months ended December 31, 2009 compared to $21,004 incurred during the same period in 2008. Other than these impairment charges, the decrease in FFO was primarily a result of worsening economic conditions which has caused occupancies and average daily rates to decline at our hotel properties. The decrease in revenues has only been partially offset by decreases in operating expenses resulting from declines in occupancy and our hotel operators cost reduction initiatives. FFO was also negatively impacted by increases in our interest expense during the year ended December 31, 2009.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, estimates are evaluated by us, including those related to carrying value of investments in hotel properties. Our estimates are based upon historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

Approximately 95% of our revenues are derived from hotel room revenues and revenue from other hotel operating departments. We directly recognize revenue and expense for all consolidated hotels as hotel operating revenue and hotel operating expense when earned and incurred. These revenues are recorded net of any sales or occupancy taxes collected from our guests. All revenues are recorded on an accrual basis, as earned. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred.

Revenue for interest on development loan financing is recorded in the period earned based on the interest rate of the loan and outstanding balance during the period. Development loans receivable and accrued interest on the development loans receivable are evaluated to determine if outstanding balances are collectible. Interest is recorded only if it is determined the outstanding loan balance and accrued interest balance are collectible.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned.

Investment in Hotel Properties

Investments in hotel properties are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of up to 40 years for buildings and improvements, two to seven years for furniture, fixtures and equipment. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in hotel properties. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in hotel properties we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Most identifiable assets, liabilities, noncontrolling interests, and goodwill related to hotel properties acquired in a business combination are recorded at full fair value. Estimating techniques and assumptions used in determining fair values involve significant estimates and judgments. These estimates and judgments have a direct impact on the carrying value of our assets and liabilities which can directly impact the amount of depreciation expense recorded on an annual basis and could have an impact on our assessment of potential impairment of our investment in hotel properties.

The operations related to properties that have been sold or properties that are intended to be sold are presented as discontinued operations in the statement of operations for all periods presented, and properties intended to be sold are designated as “held for sale” on the balance sheet.

Based on the occurrence of certain events or changes in circumstances, we review the recoverability of the property’s carrying value. Such events or changes in circumstances include the following:

- a significant decrease in the market price of a long-lived asset;
- a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;

Table of Contents

- a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; and
- a current expectation that, it is more likely than not that, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We review our portfolio on an on-going basis to evaluate the existence of any of the aforementioned events or changes in circumstances that would require us to test for recoverability. In general, our review of recoverability is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value expected, as well as the effects of hotel demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in hotel properties.

As of December 31, 2010, based on our analysis, we have determined that the future cash flow of each of the properties in our portfolio is sufficient to recover its carrying value.

Investment in Joint Ventures

Properties owned in joint ventures are consolidated if the determination is made that we are the primary beneficiary in a variable interest entity (VIE) or we maintain control of the asset through our voting interest or other rights in the operation of the entity. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have a controlling financial interest in that VIE through means other than voting rights. Our examination of each joint venture consists of reviewing the sufficiency of equity at risk, controlling financial interests, voting rights, and the obligation to absorb expected losses and expected gains, including residual returns. Control can also be demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the limited partners and the inability of the limited partners to replace the general partner. This evaluation requires significant judgment.

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to nominal ownership percentages due to specified preferred return rate thresholds.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances exist indicating impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. Subsequent changes in estimates could impact the determination of whether impairment exists. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

As of December 31, 2010, based on our analysis, we have determined that the fair value of each of our investments in unconsolidated joint ventures exceeds the carrying value of our investment in each joint venture.

Development Loans Receivable

The Company accounts for the credit risk associated with its development loans receivable by monitoring the portfolio for indications of impairment. Our methodology consists of the following:

- Identifying loans for individual review. In general, these consist of development loans that are not performing in accordance with the contractual terms of the loan.
- Assessing whether the loans identified for review are impaired. That is, whether it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. We determine the amount of impairment by calculating the estimated fair value, discounted cash flows or the value of the underlying collateral.

Table of Contents

Any charge to earnings necessary based on our review is recorded on our income statement as an impairment of a development loan receivable. Our assessment of impairment is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of impairment to be charged against earnings. Such changes could impact future results.

Based on our reviews, we determined that it is probable that all amounts will be collected according to the contractual terms of each of our development loan agreements.

Accounting for Derivative Financial Investments and Hedging Activities

We use derivatives to hedge, fix and cap interest rate risk and we account for our derivative and hedging activities by recording all derivative instruments at fair value on the balance sheet. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. We formally document all relationships between hedging instruments and hedged items, as well as our risk-management objective and strategy for undertaking each hedge transaction. Cash flow hedges that are considered highly effective are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability, with a corresponding amount recorded in other comprehensive income within shareholders' equity. Amounts are reclassified from other comprehensive income to the income statements in the period or periods the hedged forecasted transaction affects earnings.

Under cash flow hedges, derivative gains and losses not considered highly effective in hedging the change in expected cash flows of the hedged item are recognized immediately in the income statement. For hedge transactions that do not qualify for the short-cut method, at the hedge's inception and on a regular basis thereafter, a formal assessment is performed to determine whether changes in the cash flows of the derivative instruments have been highly effective in offsetting changes in cash flows of the hedged items and whether they are expected to be highly effective in the future.

RECENTLY ISSUED ACCOUNTING STANDARDS

Consolidation of Variable Interest Entities

On January 1, 2010, the Company adopted a pronouncement that amends existing US GAAP as follows: (a) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity and to identify the primary beneficiary of a variable interest entity, (b) to require ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, rather than only when specific events occur, (c) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, (d) to amend certain guidance for determining whether an entity is a variable interest entity, (e) to add an additional reconsideration event when changes in facts and circumstances pertinent to a variable interest entity occur, (f) to eliminate the exception for troubled debt restructuring regarding variable interest entity reconsideration, and (g) to require advanced disclosures that are intended to provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. Upon adoption, the Company re-evaluated each of its investments and contractual relationships to determine whether they met the guidelines of consolidation, in light of the amendments described above. Based on the evaluation performed, we have concluded that there is no change from our initial assessment with regard to these investments and contractual relationships.

RELATED PARTY TRANSACTIONS

We have entered into a number of transactions and arrangements that involve related parties. For a description of the transactions and arrangements, please see Note 7, “Commitments and Contingencies and Related Party Transactions,” to the consolidated financial statements.

Table of Contents

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our contractual obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2010.

Contractual Obligations (in thousands)	2011	2012	2013	2014	2015	Thereafter
Long Term Debt	$47,799	$33,694	$32,444	$42,550	$88,640	$404,576
Interest Expense on Long Term Debt	34,353	33,393	31,339	28,633	22,896	56,466
Credit Facility	-	-	46,000	-	-	-
Interest Expense on Credit Facility	1,955	1,955	1,955	-	-	-
Hotel Ground Rent	1,226	1,266	1,271	1,276	1,276	97,296
Total	$103,333	$52,308	$113,009	$72,459	$112,812	$558,338

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (in thousands, except per share data)

Our primary market risk exposure is to changes in interest rates on our variable rate debt. As of December 31, 2010, we are exposed to interest rate risk with respect to variable rate borrowings under our revolving line of credit and certain variable rate mortgages and notes payable. As of December 31, 2010, we had total variable rate debt outstanding of $137,409. At December 31, 2010, our variable rate debt outstanding had a weighted average interest rate of 3.92%. The effect of a 100 basis point increase or decrease in the interest rate on our variable rate debt outstanding as of December 31, 2010 would be an increase or decrease in our interest expense for the year ended December 31, 2010 of $1,064.

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 for a portion of our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We have also entered into derivative financial instruments such as interest rate swaps or caps, and in the future may enter into treasury options or locks, to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. Currently, we have two interest rate caps related to debt on the Hotel 373, New York, NY and our two subordinated notes payable. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

As of December 31, 2010 approximately 80.2% of our outstanding mortgages and notes payable are subject to fixed rates, including variable rate debt that is effectively fixed through our use of an interest rate swap, while approximately 19.8% of our outstanding mortgages payable are subject to floating rates.

Changes in market interest rates on our fixed-rate debt impact the fair value of the debt, but such changes have no impact on interest expense incurred. If interest rates rise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their December 31, 2010 levels, with all other variables held constant. A 100 basis point increase in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2010 to be approximately $487,571 and a 100 basis point decrease in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2010 to be approximately $541,061.

We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. For debt obligations outstanding as of December 31, 2010, including liabilities related to assets held for sale, the following table presents expected principal repayments and related weighted average interest rates by expected maturity dates (in thousands):

Mortgages & Notes Payable	2011		2012		2013		2014		2015		Thereafter		Total	
Fixed Rate Debt	$7,938		$33,694		$32,444		$42,550		$88,640		$353,028		$558,294	
Weighted Average Interest Rate	6.04	%	6.14	%	6.13	%	6.10	%	6.01	%	6.01	%	6.07	%
Floating Rate Debt	39,861		-		-		-		-		51,548		91,409	
	3.26	%	3.26	%	3.26	%	3.26	%	3.26	%	3.26	%	3.26	%

Weighted Average Interest Rate								
	$47,799	$33,694	$32,444	$42,550	$88,640	$404,576	$649,703	
Credit Facility								
	-	-	46,000	-	-	-	$46,000	
Weighted Average Interest Rate			4.25	%			4.25	%
TOTAL	$47,799	$33,694	$78,444	$42,550	$88,640	$404,576	$695,703	

The table incorporates only those exposures that existed as of December 31, 2010, and does not consider exposure or positions that could arise 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 the future period, prevailing interest rates, and our hedging strategies at that time.

Table of Contents

The following table illustrates expected principal repayments and certain adjustments to reflect:

- the Company's exercise of each of the extension options within its discretion or upon lender approval
- the lender's extension of the maturity of the revolving line of credit extension options, and
- the refinance of mortgage debt on the hotel properties.

	2011	2012	2013	2014	2015	Thereafter	Total
Principal repayments due as of December 31, 2010, as noted above	$47,799	$33,694	$78,444	$42,550	$88,640	$404,576	$695,703
Adustments (1)							
Extension Options							
Hotel 373 - 5th Avenue, New York, NY (2)	(22,000)	22,000	-	-	-	-	-
Hampton Inn - West Haven, CT (3)	-	(7,552)	-	-	7,552	-	-
Residence Inn - Carlisle (4)	-	-	(6,732)	-	-	6,732	-
Line of Credit Facility (5)	-	-	(46,000)	46,000	-	-	
Refinance							
NU Hotel Brooklyn - New York, NY (6)	-	(18,000)	18,000	-	-	-	-
Pro Forma Principal Repayments (7)	$25,799	$30,142	$43,712	$88,550	$96,192	$411,308	$695,703

(1) Adjustments reflect principal balances as of December 31, 2010. Adjustments do not include amortization of principal scheduled to occur subsequent to December 31, 2010 through maturity date or extended maturity date if options are exercised.

(2) Represents mortgage debt on the Hotel 373, 5th Avenue, New York, NY which contains a one-year extension option, which can be exercised at our discretion, effectively extending the maturity from May of 2011 to May of 2012.

(3) Represents the mortgage debt on the Hampton Inn, West Haven, CT, which contains a three-year extension option, which is subject to the lender's approval in its discretion, which, if granted, effectively extends the maturity from November of 2012 to November of 2015.

(4) Represents mortgage debt on Residence Inn, Carlisle, PA, which contains a three-year extension option, which is subject to the lenders' approval in its discretion, which, if granted, effectively extends the maturity from January of

2013 to January of 2016.

(5) Represents the revolving line of credit agreement, which contains a one-year extension option, which is subject to the lender's approval in its discretion, which, if granted, effectively extends the maturity date from September of 2013 to September of 2014.

(6) Represents the mortgage debt on the Nu Hotel, Brooklyn, NY, which contains a one-year extension option, which can be exercised at out discretion, effectively extending the maturity date from January 2012 to January 2013.

(7) Reflects principal balances as of December 31, 2010 unless otherwise noted. Figures do not include amortization of principal scheduled to occur subsequent to December 31, 2010 through maturity date or extended maturity date if options are exercised.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Hersha Hospitality Trust

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Stockholders of
Hersha Hospitality Trust:

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of Hersha Hospitality Trust's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hersha Hospitality Trust and subsidiaries' internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2011, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 3, 2011

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	December 31, 2010	December 31, 2009
Assets:		
Investment in Hotel Properties, net of Accumulated Depreciation	$ 1,245,851	$ 938,954
Investment in Unconsolidated Joint Ventures	35,561	39,182
Development Loans Receivable	41,653	46,094
Cash and Cash Equivalents	65,596	11,404
Escrow Deposits	17,384	16,174
Hotel Accounts Receivable, net of allowance for doubtful accounts of $31 and $34	9,611	7,103
Deferred Financing Costs, net of Accumulated Amortization of $5,852 and $4,262	10,204	8,696
Due from Related Parties	5,069	2,394
Intangible Assets, net of Accumulated Amortization of $1,084 and $794	7,934	7,542
Other Assets	18,414	12,428
Assets Held for Sale	-	21,073
Total Assets	$ 1,457,277	$ 1,111,044
Liabilities and Equity:		
Line of Credit	$ 46,000	$ 79,200
Mortgages and Notes Payable, net of unamortized discount of $983 and $49	648,720	645,351
Accounts Payable, Accrued Expenses and Other Liabilities	28,601	16,216
Dividends and Distributions Payable	9,805	4,293
Due to Related Parties	939	769
Liabilities Related to Assets Held for Sale	-	20,892
Total Liabilities	734,065	766,721
Redeemable Noncontrolling Interests - Common Units (Note 1)	$ 19,894	$ 14,733
Equity:		
Shareholders' Equity:		
Preferred Shares - 8% Series A, $.01 Par Value, 29,000,000 shares authorized, 2,400,000 Shares Issued and Outstanding (Aggregate Liquidation Preference $60,000) at December 31, 2010 and 2009	24	24
Common Shares - Class A, $.01 Par Value, 300,000,000 and 150,000,000 Shares Authorized at December 31, 2010 and 2009, 169,205,638 and 57,682,917 Shares Issued and Outstanding at December 31, 2010 and 2009, respectively	1,692	577
Common Shares - Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding	-	-
Accumulated Other Comprehensive Loss	(338)	(160)
Additional Paid-in Capital	918,215	487,481
Distributions in Excess of Net Income	(236,159)	(185,725)
Total Shareholders' Equity	683,434	302,197

Noncontrolling Interests (Note 1):		
Noncontrolling Interests - Common Units	19,410	27,126
Noncontrolling Interests - Consolidated Joint Ventures	474	267
Total Noncontrolling Interests	19,884	27,393
Total Equity	703,318	329,590
Total Liabilities and Equity	$ 1,457,277	$ 1,111,044

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	2010	2009	2008
Revenue:			
Hotel Operating Revenues	$277,708	$212,352	$236,247
Interest Income from Development Loans	4,686	7,411	7,890
Other Revenues	381	1,981	3,984
Total Revenues	282,775	221,744	248,121
Operating Expenses:			
Hotel Operating Expenses	158,717	124,294	133,762
Hotel Ground Rent	1,374	1,166	1,040
Real Estate and Personal Property Taxes and Property Insurance	19,335	14,060	12,559
General and Administrative	10,263	5,891	7,208
Stock Based Compensation	6,649	2,143	1,502
Acquisition and Terminated Transaction Costs	4,827	328	380
Loss from Impairment of Assets	2,433	39,111	21,004
Depreciation and Amortization	52,012	43,187	38,989
Total Operating Expenses	255,610	230,180	216,444
Operating Income (Loss)	27,165	(8,436)	31,677
Interest Income	169	208	306
Interest Expense	45,868	45,183	43,306
Other Expense	464	165	129
Loss on Debt Extinguishment	932	-	1,552
Loss before Income (Loss) from Unconsolidated Joint Venture Investments and Discontinued Operations	(19,930)	(53,576)	(13,004)
Loss from Unconsolidated Joint Ventures	(1,751)	(7,190)	(517)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	4,008	-	-
Income (Loss) from Unconsolidated Joint Venture Investments	2,257	(7,190)	(517)
Loss from Continuing Operations	(17,673)	(60,766)	(13,521)
Discontinued Operations (Note 12):			
Gain on Disposition of Hotel Properties	347	1,869	2,888
Income from Discontinued Operations	124	439	204
Income from Discontinued Operations	471	2,308	3,092
Net Loss	(17,202)	(58,458)	(10,429)
Loss Allocated to Noncontrolling Interests	845	8,597	1,621
Preferred Distributions	(4,800)	(4,800)	(4,800)
Net Loss applicable to Common Shareholders	$(21,157)	$(54,661)	$(13,608)

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	2010	2009	2008
Earnings Per Share:			
BASIC			
(Loss) from Continuing Operations applicable to Common Shareholders	$(0.16)	$(1.12)	$(0.37)
Income from Discontinued Operations applicable to Common Shareholders	$-	0.04	0.06
Net (Loss) applicable to Common Shareholders	$(0.16)	$(1.08)	$(0.31)
DILUTED			
(Loss) from Continuing Operations applicable to Common Shareholders	$(0.16) *	$(1.12) *	$(0.37) *
Income from Discontinued Operations applicable to Common Shareholders	$- *	0.04 *	0.06 *
Net (Loss) applicable to Common Shareholders	$(0.16) *	$(1.08) *	$(0.31) *
Weighted Average Common Shares Outstanding:			
Basic	134,370,172	51,027,742	45,184,127
Diluted	134,370,172*	51,027,742*	45,184,127*

* Income allocated to noncontrolling interest in Hersha Hospitality Limited Partnership has been excluded from the numerator and units of limited partnership interest in Hersha Hospitality Limited Partnership have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average units of limited partnership interest in Hersha Hospitality Limited Partnership outstanding for the year ended December 31, 2010, 2009 and 2008 were 8,628,492, 8,724,725 and 8,034,737, respectively.

Unvested stock awards, contingently issuable share awards and options to acquire our common shares have been omitted from the denominator for the purpose of computing diluted earnings per share for the year ended December 31, 2010, since the effect of including these awards in the denominator would be anti-dilutive to loss from continuing operations applicable to common shareholders. For the year ended December 31, 2010, there were 396,328 anti-dilutive unvested stock awards outstanding, 934,097 anti-dilutive contingently issuable share awards outstanding, and 2,327,219 anti-dilutive options to acquire our common shares outstanding. As a result of the application of the treasury stock method, there were no potentially dilutive securities to be considered for inclusion in the denominator for purpose of computing diluted earnings per share for years ended December 31, 2009 and 2008.

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
[IN THOUSANDS, EXCEPT PER SHARE AMOUNTS]

	Shareholders' Equity											
	Class A Common Shares		Class B Common Shares		Series A Preferred Shares						Common U	
	Shares	Dollars	Shares	Dollars	Shares	Dollars	Additional Paid-In Capital	Other Comprehensive Income	Distributions in Excess of Net Earnings	Total Shareholders' Equity	Shares	
Balance at December 31, 2007	41,203,612	$412	-	$-	2,400,000	$24	$397,127	$(23)	$(67,135)	$330,405	6,424,915	$
Common Stock Issuance	6,600,000	66	-	-	-	-	62,007	-	-	62,073	-	
Issuance Costs	-	-	-	-	-	-	(228)	-	-	(228)	-	
Unit Conversion	175,843	2	-	-	-	-	1,370	-	-	1,372	(175,843)	
Common Units Issued for Acquisitions	-	-	-	-	-	-	-	-	-	-	2,497,228	
Reallocation of Noncontrolling Interest	-	-	-	-	-	-	1,966	-	-	1,966	-	
Reclassification of Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	(3,064,252)	
Dividends declared:												
Common Stock ($0.72 per share)	-	-	-	-	-	-	-	-	(33,464)	(33,464)	-	
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)	-	
Dividend Reinvestment Plan	5,092	-	-	-	-	-	31	-	-	31	-	
Stock Based Compensation												
Restricted Share Award Grants	281,675	3	-	-	-	-	(3)	-	-	-	-	

Restricted Share Award Amortization	-	-	-	-	-	-	1,411	-	-	1,411	-	
Share Grants to Trustees	10,000	-	-	-	-	-	91	-	-	91	-	
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	-	-	-	(86)	-	(86)	-	
Net Loss	-	-	-	-	-	-	-	-	(8,808)	(8,808)	-	
Total Comprehensive Loss										(8,894)	-	
Balance at December 31, 2008	48,276,222	$483	-	$-	2,400,000	$24	$463,772	$(109)	$(114,207)	$349,963	5,682,048	$
Common Stock Issuance	8,442,300	84	-	-	-	-	22,423	-	-	22,507	-	
Issuance Costs	-	-	-	-	-	-	(1,165)	-	-	(1,165)	-	
Unit Conversion	44,490	-	-	-	-	-	255	-	-	255	(44,490)	
Dividends and Distributions declared:												
Distribution to Noncontrolling Interest in Consolidated Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	
Common Stock ($0.33 per share)	-	-	-	-	-	-	-	-	(16,857)	(16,857)	-	
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)	-	
Dividend Reinvestment Plan	9,943	-	-	-	-	-	25	-	-	25	-	
Stock Based Compensation												
Restricted and Performance Share Award Grants	862,462	9	-	-	-	-	(9)	-	-	-	-	
Restricted Share Award Amortization	-	-	-	-	-	-	2,039	-	-	2,039	-	
Share Grants to Trustees	47,500	1	-	-	-	-	141	-	-	142	-	
	-	-	-	-	-	-	-	-	-	-	-	

Disposition of Consolidated Joint Venture												
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	-	-	-	(51)	-	(51)	-	
Net Loss	-	-	-	-	-	-	-	-	(49,861)	(49,861)	-	
Total Comprehensive Loss										(49,912)	-	
Balance at December 31, 2009	57,682,917	$577	-	$-	2,400,000	$24	$487,481	$(160)	$(185,725)	$302,197	5,637,558	$
Common Stock Issuance	108,100,000	1,081	-	-	-	-	420,653	-	-	421,734	-	
Issuance Costs	-	-	-	-	-	-	(1,293)	-	-	(1,293)	-	
Unit Conversion	2,934,511	29	-	-	-	-	12,405	-	-	12,434	(2,884,511)	
Common Units Issued for Acquisitions	-	-	-	-	-	-	-	-	-	-	1,651,613	
Reallocation of Noncontrolling Interest	-	-	-	-	-	-	(6,374)	-	-	(6,374)	-	
Dividends and Distributions declared:												
Distribution to Noncontrolling Interest in Consolidated Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	
Common Stock ($0.20 per share)	-	-	-	-	-	-	-	-	(29,277)	(29,277)	-	
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)	-	
Dividend Reinvestment Plan	2,655	-	-	-	-	-	12	-	-	12	-	
Stock Based Compensation												
Restricted and Performance Share Award Grants	437,555	4	-	-	-	-	(4)	-	-	-	-	
Restricted Share Award	-	-	-	-	-	-	5,072	-	-	5,072	-	

Amortization												
Share Grants to Trustees	48,000	1	-	-	-	-	263	-	-	264	-	
Comprehensive Income (Loss):												
Other Comprehensive Loss	-	-	-	-	-	-	-	(178)	-	(178)	-	
Net Loss	-	-	-	-	-	-	-	-	(16,357)	(16,357)	-	
Total Comprehensive Loss										(16,535)	-	
Balance at December 31, 2010	169,205,638	$1,692	-	$-	2,400,000	$24	$918,215	$(338)	$(236,159)	$683,434	4,404,660	$

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

49

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS]

	2010	2009	2008
Operating activities:			
Net loss	$(17,202)	$(58,458)	$(10,429)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Gain on disposition of hotel properties	(347)	(1,869)	(2,888)
Impairment of assets	2,410	39,111	21,004
Acquisition costs	4,676	-	-
Depreciation	51,823	44,002	41,219
Amortization	2,975	2,285	1,958
Debt extinguishment	725	-	1,587
Development loan interest added to principal	(2,559)	(3,253)	-
Equity in (income) loss of unconsolidated joint ventures	(2,257)	7,190	517
Distributions from unconsolidated joint ventures	-	400	3,036
Loss (gain) recognized on change in fair value of derivative instrument	12	(172)	71
Stock based compensation expense	6,649	2,143	1,502
Change in assets and liabilities:			
(Increase) decrease in:			
Hotel accounts receivable	(1,694)	(312)	420
Escrows	(1,210)	(3,770)	1,302
Other assets	(273)	(3,727)	(1,132)
Due from related party	(2,514)	2,159	(3,251)
Increase (decrease) in:			
Due to related party	(131)	(634)	(1,115)
Accounts payable and accrued expenses	5,163	(3,563)	93
Net cash provided by operating activities	46,246	21,532	53,894
Investing activities:			
Purchase of hotel property assets	(280,731)	(9,315)	(63,626)
Deposits on hotel acquisitions	(5,500)	-	-
Capital expenditures	(10,328)	(6,138)	(19,226)
Cash paid for hotel development project	(6,471)	-	-
Proceeds from disposition of hotel properties	2,863	8,524	6,456
Distributions from unconsolidated joint venture	100	261	2,113
Advances and capital contributions to unconsolidated joint ventures	(14,291)	(753)	(96)
Investment in development loans receivable	-	(2,000)	(64,200)
Repayment of development loans receivable	-	500	22,416
Repayment of notes receivable	-	-	1,350
Cash paid for franchise fee intangible	-	-	(57)
Net cash used in investing activities	(314,358)	(8,921)	(114,870)
Financing activities:			
Proceeds (repayments of) from borrowings under line of credit, net	(33,200)	(9,221)	44,721
Principal repayment of mortgages and notes payable	(61,779)	(39,232)	(57,421)

Proceeds from mortgages and notes payable	31,505	42,155	59,156
Cash paid for deferred financing costs	(4,016)	(362)	(1,244)
Proceeds from issuance of common stock, net	420,441	21,342	61,845
Acquisition of interest rate cap	(394)	-	-
Distributions to partners in consolidated joint ventures	-	(124)	-
Dividends paid on common shares	(23,688)	(22,640)	(32,169)
Dividends paid on preferred shares	(4,800)	(4,800)	(4,800)
Distributions paid on common partnership units	(1,765)	(4,022)	(5,742)
Net cash provided by (used in) financing activities	322,304	(16,904)	64,346
Net increase (decrease) in cash and cash equivalents	54,192	(4,293)	3,370
Cash and cash equivalents - beginning of year	11,404	15,697	12,327
Cash and cash equivalents - end of year	$65,596	$11,404	$15,697

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust ("we" or the "Company") was formed in May 1998 as a self-administered, Maryland real estate investment trust. We have elected to be taxed and expect to continue to elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes.

The Company owns a controlling general partnership interest in Hersha Hospitality Limited Partnership ("HHLP" or the "Partnership"), which owns a 99% limited partnership interest in various subsidiary partnerships. Hersha Hospitality, LLC ("HHLLC"), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HHLLC.

The Partnership owns a taxable REIT subsidiary ("TRS"), 44 New England Management Company ("44 New England" or "TRS Lessee"), to lease certain of the Company's hotels.

Hersha's common shares of beneficial interest trade on the New York Stock Exchange ("the NYSE") under the ticker symbol "HT" and its 8.0% Series A preferred shares of beneficial interest trade on the NYSE under the ticker symbol "HT PR A."

As of December 31, 2010, the Company, through the Partnership and subsidiary partnerships, wholly owned sixty-two limited and full service hotels. All of the wholly owned hotel facilities are leased to the Company's TRS, 44 New England.

In addition to the wholly owned hotel properties, as of December 31, 2010, the Company owned joint venture interests in another fifteen properties. The properties owned by the joint ventures are leased to a TRS owned by the joint venture or to an entity owned by the joint venture partners and 44 New England. The following table lists the properties owned by these joint ventures:

Joint Venture	Ownership	Property	Location	Lessee/Sublessee
Unconsolidated Joint Ventures				
Inn America Hospitality at Ewing, LLC	50.0%	Courtyard	Ewing/Princeton, NJ	Hersha Inn America TRS Inc.
Mystic Partners, LLC	66.7%	Marriott	Mystic, CT	Mystic Partners Leaseco, LLC
	8.8%	Hilton	Hartford, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Norwich, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Warwick, RI	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Danbury, CT	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Mystic, CT	

				Mystic Partners Leaseco, LLC
	44.7%	Residence Inn	Southington, CT	Mystic Partners Leaseco, LLC
	66.7%	Springhill Suites	Waterford, CT	Mystic Partners Leaseco, LLC
	15.0%	Marriott	Hartford, CT	Mystic Partners Leaseco, LLC
SB Partners, LLC	50.0%	Holiday Inn Express	South Boston, MA	South Bay Sandeep, LLC
Metro 29th Street Associates, LLC.	50.0%	Holiday Inn Express	New York, NY	Metro 29th Sublessee, LLC
Consolidated Joint Ventures				
Hiren Boston, LLC	50.0%	Courtyard	South Boston, MA	South Bay Boston, LLC
LTD Associates One, LLC	75.0%	Springhill Suites	Williamsburg, VA	HT LTD Williamsburg One LLC
LTD Associates Two, LLC	75.0%	Residence Inn	Williamsburg, VA	HT LTD Williamsburg Two LLC

Mystic Partners, LLC owns an interest in nine hotel properties. Our interest in Mystic Partners, LLC is relative to our interest in each of the nine properties owned by the joint venture as defined in the joint venture's governing documents. Each of the nine properties owned by Mystic Partners, LLC is leased to a separate entity that is consolidated in Mystic Partners Leaseco, LLC which is owned by 44 New England and our joint venture partner in Mystic Partners, LLC.

The properties are managed by eligible independent management companies, including Hersha Hospitality Management, LP ("HHMLP"). HHMLP is owned in part by three of the Company's executive officers, two of its affiliated trustees and other third party investors.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all of our accounts as well as accounts of the Partnership, subsidiary partnerships and our wholly owned TRS Lessee. All significant inter-company amounts have been eliminated.

Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Properties owned in joint ventures are also consolidated if the determination is made that we are the primary beneficiary in a variable interest entity (VIE) or we maintain control of the asset through our voting interest in the entity. Control can be demonstrated when the general partner has the power to impact the economic performance of the partnership, which includes the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the limited partners and the inability of the limited partners to replace the general partner. Control can be demonstrated by the limited partners if the limited partners have the right to dissolve or liquidate the partnership or otherwise remove the general partner without cause or have rights to participate in the significant decisions made in the ordinary course of the partnership's business.

We evaluate each of our investments and contractual relationships to determine whether they meet the guidelines of consolidation. Our examination consists of reviewing the sufficiency of equity at risk, controlling financial interests, voting rights, and the obligation to absorb expected losses and expected gains, including residual returns. Based on our examination, the following entities were determined to be VIE's: Mystic Partners, LLC; Mystic Partners Leaseco, LLC; South Bay Boston, LLC; HT LTD Williamsburg One LLC; HT LTD Williamsburg Two LLC; Metro 29th Sublessee, LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II. Mystic Partners, LLC is a VIE entity, however because we are not the primary beneficiary it is not consolidated by the Company. Our maximum exposure to losses due to our investment in Mystic Partners, LLC is limited to our investment in the joint venture which is $25,935 as of December 31, 2010. Also, Mystic Partners Leaseco, LLC; South Bay Boston, LLC; HT LTD Williamsburg One LLC; HT LTD Williamsburg Two LLC, and Metro 29th Sublessee, LLC lease hotel properties from our joint venture interests and are VIEs. These entities are consolidated by the lessors, the primary beneficiaries of each entity. Hersha Statutory Trust I and Hersha Statutory Trust II are VIEs but HHLP is not the primary beneficiary in these entities. The accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated with and into HHLP.

We have consolidated the operations of LTD Associates One, LLC; and LTD Associates Two, LLC joint ventures because each entity is a voting interest entity and the Company owns a majority voting interest in the venture. In addition, we have consolidated the operations of the Hiren Boston, LLC joint venture beginning on April 13, 2010, due to debt restructuring event which caused Hiren Boston, LLC to become a VIE. Since HHLP is considered the primary beneficiary of this VIE, we have consolidated this joint venture.

We allocate resources and assess operating performance based on individual hotels and consider each one of our hotels to be an operating segment. All of our individual operating segments meet the aggregation criteria. All of our other real estate investment activities are immaterial and meet the aggregation criteria, and thus, we report one segment: investment in hotel properties.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (US GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these Consolidated Financial Statements, different assumptions and estimates could materially impact our reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions and changes in market conditions could impact our future operating results.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Hotel Properties

The Company allocates the purchase price of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets and the fair value of liabilities assumed, including debt. The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements	7 to 40 Years
Furniture, Fixtures and Equipment	2 to 7 Years

The Company periodically reviews the carrying value of each hotel to determine if circumstances indicate impairment to the carrying value of the investment in the hotel or that depreciation periods should be modified. If facts or circumstances support the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel. Based on the properties undiscounted future cash flows, the Company will determine if the investment in such hotel is recoverable. If impairment is indicated, an adjustment will be made to reduce the carrying value of the hotel to reflect the hotel at fair value.

We consider a hotel to be held for sale when management and our independent trustees commit to a plan to sell the property, the property is available for sale, management engages in an active program to locate a buyer for the property and it is probable the sale will be completed within a year of the initiation of the plan to sell.

Investment in Unconsolidated Joint Ventures

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to the ownership percentages due to specified preferred return rate thresholds.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

Development Loans Receivable

The Company provides secured first-mortgage and mezzanine financing to hotel developers. Development loans receivable are recorded at cost and are reviewed for potential impairment on an on-going basis. The Company's development loans receivable are each secured by various hotel or hotel development properties or partnership interests in hotel or hotel development properties. We have determined that development loans receivable do not constitute a financial interest in a VIE and do not consolidate the operating results of the borrower in our consolidated financial statements. Our evaluation consists of reviewing the sufficiency of the borrower's equity at risk, controlling financial interests in the borrower, voting rights of the borrower, and the borrower's obligation to absorb expected losses and expected gains, including residual returns. The analysis utilized by the Company in evaluating the development loans receivable involves considerable management judgment and assumptions.

A development loan receivable is considered impaired when it becomes probable, based on current information, that the Company will be unable to collect all amounts due according to the loan's contractual terms. The amount of impairment, if any, is measured by comparing the recorded amount of the loan to the present value of the expected cash flows or the fair value of the collateral. If a loan was deemed to be impaired, the Company would record a charge to income for any shortfall.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in banks plus short-term investments with an initial maturity of three months or less when purchased.

Escrow Deposits

Escrow deposits include reserves for debt service, real estate taxes, and insurance and reserves for furniture, fixtures, and equipment replacements, as required by certain mortgage debt agreement restrictions and provisions.

Hotel Accounts Receivable

Hotel accounts receivable consists primarily of meeting and banquet room rental and hotel guest receivables. The Company generally does not require collateral. Ongoing credit evaluations are performed and an allowance for potential losses from uncollectible accounts is provided against the portion of accounts receivable that is estimated to be uncollectible.

Deferred Costs

Deferred loan costs are recorded at cost and amortized over the terms of the related indebtedness using the effective interest method.

Due from/to Related Parties

Due from/to Related Parties represents current receivables and payables resulting from transactions related to hotel management and project management with affiliated entities. Due from related parties results primarily from advances of shared costs incurred and interest receivable on development loans made to related parties. Due to affiliates results primarily from hotel management and project management fees incurred. Both due to and due from related parties are generally settled within a period not to exceed one year.

Intangible Assets

Intangible assets consist of leasehold intangibles for above-market and below-market value of in-place leases and deferred franchise fees. The leasehold intangibles are amortized over the remaining lease term. Deferred franchise fees are amortized using the straight-line method over the life of the franchise agreement.

Noncontrolling Interest

Noncontrolling interest in the Partnership represents the limited partner's proportionate share of the equity of the Partnership. Income (loss) is allocated to noncontrolling interest in accordance with the weighted average percentage ownership of the Partnership during the period. At the end of each reporting period the appropriate adjustments to the income (loss) are made based upon the weighted average percentage ownership of the Partnership during the period.

Our ownership interest in the Partnership as of December 31, 2010, 2009 and 2008 was 95.8%, 86.9%, and 84.5%, respectively.

Effective January 1, 2009, we adopted a new accounting standard which defines a noncontrolling interest as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Under this standard, such noncontrolling interests are reported on the consolidated balance sheets within equity, but separately from the shareholders' equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with US GAAP, we classify securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the issuer, outside of permanent equity in the consolidated balance sheet. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company considers the guidance in US GAAP to evaluate whether the Company controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract.

We classify the noncontrolling interests of our consolidated joint ventures within equity on our consolidated balance sheets. These noncontrolling interests totaled $474 as of December 31, 2010 and $267 as of December 31, 2009. In addition, certain common units of limited partnership interests in HHLP (“Nonredeemable Common Units”) are reclassified from the mezzanine section of our consolidated balance sheets to equity. These noncontrolling interests of Nonredeemable Common Units totaled $19,410 as of December 31, 2010 and $27,126 as of December 31, 2009. As of December 31, 2010, there were 4,404,660 Nonredeemable Common Units outstanding with a fair market value of $29,071, based on the price per share of our common shares on the NYSE on such date. These units are only redeemable by the unit holders for common shares on a one-for-one basis or, at our option, cash.

Certain common units of limited partnership interests in HHLP (“Redeemable Common Units”) have been pledged as collateral in connection with a pledge and security agreement entered into by the Company and the holders of the Redeemable Common Units. The redemption feature contained in the pledge and security agreement where the Redeemable Common Units serve as collateral contains a provision that could result in a net cash settlement outside of the control of the Company. As a result, the Redeemable Common Units will continue to be classified in the mezzanine section of the consolidated balance sheets as they do not meet the requirements for equity classification under US GAAP. The carrying value of the Redeemable Common Units equals the greater of carrying value based on the accumulation of historical cost or the redemption value. As of December 31, 2010, there were 3,014,252 Redeemable Common Units outstanding with a redemption value equal to the fair value of the Redeemable Common Units, or $19,894. The redemption value of the Redeemable Common Units is based on the price per share of our common shares on the NYSE on such date. As of December 31, 2010, the Redeemable Common Units were valued on the consolidated balance sheets at redemption value since the Redeemable Common Units redemption value was greater than historical cost of $13,521. As of December 31, 2009, the Redeemable Common Units were valued on the consolidated balance sheets at carrying value based on historical cost of $14,733 since historical cost exceeded the Redeemable Common Units redemption value of $9,622.

We also maintain noncontrolling interests for the equity interest owned by third parties in LTD Associates One, LLC and LTD Associates Two, LLC. Third parties own a 25% interest in each of LTD Associates One, LLC and LTD Associates Two, LLC. In addition, we maintain noncontrolling interest for the equity interest owned by third parties in Hiren Boston, LLC. A third party owns a 50% interest in Hiren Boston, LLC. We allocate the income (loss) of these joint ventures to the noncontrolling interest in consolidated joint ventures based upon the ownership of the entities, preferences in distributions of cash available and the terms of each venture agreement.

Net income or loss attributed to Nonredeemable Common Units and Redeemable Common Units (collectively, “Common Units”), as well as the net income or loss related to the noncontrolling interests of our consolidated joint ventures, is included in net income or loss in the consolidated statements of operations. Net income or loss attributed to the Common Units and the noncontrolling interests of our consolidated joint ventures is excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

Shareholders' Equity

On January 21, 2010, we completed a public offering in which 51,750,000 common shares, including 6,750,000 common shares subject to an overallotment option exercised by the underwriters, were sold by us through several underwriters for net proceeds to us of approximately $148,955 before the payment of offering-related expenses. Immediately upon closing the offering, we contributed all of the net proceeds of the offering to HHLP in exchange for additional common units of limited partnership in HHLP.

On March 24, 2010, we completed a public offering in which 27,600,000 common shares, including 3,600,000 common shares subject to an overallotment option exercised by the underwriters, were sold by us through several underwriters for net proceeds to us of approximately $112,762 before the payment of offering-related expenses. Immediately upon closing the offering, we contributed all of the net proceeds of the offering to the Partnership in exchange for additional common units of limited partnership in HHLP.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On October 22, 2010, we completed a public offering in which 28,750,000 common shares, including 3,750,000 common shares subject to an overallotment option exercised by the underwriters, were sold by us through several underwriters for net proceeds to us of approximately $160,017 before the payment of offering-related expenses. Immediately upon closing the offering, we contributed all of the net proceeds of the offering to HHLP in exchange for additional common units of limited partnership in HHLP. HHLP used the net proceeds of this offering to reduce some of the indebtedness outstanding under our revolving line of credit facility and secured debt on several of our existing assets and intends to use the remainder for general corporate purposes, including repayment of debt and and future acquisitions.

Aggregate offering-related expenses associated with these three public offerings were approximately $1,293, resulting in net proceeds after expenses of $420,441.

On August 4, 2009, we entered into a purchase agreement with Real Estate Investment Group L.P. (“REIG”), pursuant to which we sold 5,700,000 Class A common shares of beneficial interest at a price of $2.50 per share to REIG for gross proceeds of $14,250. REIG is a Bermuda limited partnership, whose general partner and majority limited partner wholly-owned by IRSA Inversiones y Representaciones Sociedad An nima, a stock corporation organized under the laws of the Republic of Argentina (“IRSA”). We also granted REIG the option to buy up to an additional 5,700,000 common shares at a price of $3.00 per share, which is exercisable through August 4, 2014. If at any time after August 4, 2011 the closing price for our common shares on the NYSE exceeds $5.00 for 20 consecutive trading days, we may call in and cancel the option in exchange for issuance of common shares to REIG with an aggregate value equal to the volume weighted average price per common share for the 20 trading days prior to the exercise of the option, less the $3.00 option price, multiplied by the number of common shares remaining under the option.

On June 12, 2009, we entered into a sales agreement with a broker-dealer acting as a sales agent, under which it may offer and sell up to 15,000,000 Class A common shares of beneficial interest. Sales of shares under this agreement, if any, may be made by any method permitted by law deemed to be an “at the market offering” and in privately negotiated transactions. The sales agent is to use its commercially reasonable efforts consistent with its normal trading and sales practice to sell the shares as directed by the Company. The sales agent is entitled to compensation equal to 2.75% of the gross sales price per share for any shares sold under the agreement. Under the sales agreement, during the year ended December 31, 2009, we sold 2,742,300 shares with net proceeds of $8,258.

On May 16, 2008, we completed a public offering of 6,000,000 common shares at $9.90 per share. On May 20, 2008, the underwriters exercised a portion of their over-allotment option with respect to that offering, and we issued an additional 600,000 common shares at $9.90 per share. Proceeds to us, net of underwriting discounts and commissions and expenses, were approximately $61,845. Immediately upon closing the offering, we contributed all of the net proceeds of the offering to the Partnership in exchange for additional Partnership interests. The net offering proceeds were used to repay indebtedness.

Stock Based Compensation

We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to performance awards that are contingent upon market based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period.

Derivatives and Hedging

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

We recognize revenue and expense for all consolidated hotels as hotel operating revenue and hotel operating expense when earned and incurred. These revenues are recorded net of any sales or occupancy taxes collected from our guests. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred.

Interest income on development loan financing is recorded in the period earned based on the interest rate of the loan and outstanding balance during the period. Development loans receivable and accrued interest on the development loans receivable are evaluated to determine if outstanding balances are collectible. Interest is recorded only if it is determined the outstanding loan balance and accrued interest balance are collectible.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned to the extent of the noncontrolling interest ownership.

Income Taxes

The Company qualifies as a REIT under applicable provisions of the Internal Revenue Code, as amended, and intends to continue to qualify as a REIT. In general, under such provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income will not be subject to Federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for Federal income tax purposes.

Deferred income taxes relate primarily to the TRS Lessee and 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 of the TRS Lessee and their respective tax bases and for their operating loss and tax credit carry forwards based on enacted 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 it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

Although the TRS Lessee is expected to operate at a profit for Federal income tax purposes in future periods, the utilization of the deferred tax asset is not determinable. Therefore, any deferred tax assets have been reserved as we have not concluded that it is more likely than not that these deferred tax assets will be realizable.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Costs

In July 2010, the FASB issued a new accounting standard that expands existing disclosures about the credit quality of financial receivables and the related allowance for credit losses. The expanded disclosure requirements, which are effective for ending balances as of December 31, 2010, are applicable to our Development Loans Receivable, and have been included in Note 4. Disclosures regarding activity that occurs during the reporting period will be effective beginning January 1, 2011.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Land	$233,869	$161,449
Buildings and Improvements	1,057,344	814,461
Furniture, Fixtures and Equipment	150,723	122,174
Construction in Progress	15,301	-
	1,457,237	1,098,084
Less Accumulated Depreciation	(211,386)	(159,130)
Total Investment in Hotel Properties	$1,245,851	$938,954

Depreciation expense was $51,823, $44,002 and $41,219 for the years ended December 31, 2010, 2009 and 2008, respectively.

Acquisitions

During the year ended December 31, 2010 we acquired the following wholly owned hotel properties:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees, Loan Costs, and Leasehold Intangible	Construction in Progress	Total Purchase Price	Fair Value of Assumed Debt
Hilton Garden Inn, Glastonbury, CT	1/1/2010	$ 1,898	$ 12,981	$ 2,223	$ 27	$ -	$ 17,129	$ 11,937
Hampton Inn, Times Square, NY	2/9/2010	10,691	41,637	3,939	89	-	56,356	-
Holiday Inn Express, Times Square, NY	2/9/2010	11,075	43,113	4,078	105	-	58,371	-
Candlewood Suites, Times Square, NY	2/9/2010	10,281	36,687	4,298	96	-	51,362	-
	5/7/2010	12,152	21,100	1,567	57	-	34,876	-

Holiday Inn, Wall Street, NY								
Hampton Inn, Washington, DC	9/1/2010	9,335	58,048	5,605	108	-	73,096	-
Sheraton, New Castle, DE	12/28/2010	-	-	-	-	15,301	15,301	-
Total		$ 55,432	$ 213,566	$ 21,710	$ 482	$ 15,301	$ 306,491	$ 11,937

On January 1, 2010, we acquired our joint venture partner's 52.0% membership interest in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and as a result, this hotel became one of our wholly-owned properties. We assumed $13,141 in mortgage debt with the acquisition of this property bearing interest at 5.98% which was determined on the date of acquisition to be below market rates. We recorded a discount of $1,204 related to the assumption of this debt which will be amortized through the date of the debt's maturity in April 2016. Amortization of the discount is recorded as interest expense on our consolidated statement of operations. See "Note 3 – Investment in Unconsolidated Joint Ventures" for further discussion of this transaction.

On February 9, 2010, we acquired a Hampton Inn, a Holiday Inn Express and a Candlewood Suites in the area of Times Square, New York, NY. The sellers of the three hotels were related to each other, but not the Company. The total purchase price for the three hotels was $166,089 and consisted of $160,790 in cash and 1,451,613 Common Units, valued at $5,299. In addition, we paid closing costs of $3,228 and acquired approximately $63 in net working capital assets.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (continued)

On May 7, 2010, we entered into a contribution agreement with an unrelated third party and closed on the acquisition of 100% of the membership interests in Maiden Hotel LLC, the owner of the Wall Street Holiday Inn, New York, NY. The aggregate purchase price paid for the membership interests in Maiden Hotel LLC was approximately $34,876. The purchase price paid included the issuance of 200,000 Common Units, valued at $957, the settlement of $7,839 of existing mezzanine financing and accrued interest income, and the payment of approximately $26,080 in cash provided, in part, from borrowings under our existing line of credit. The property was purchased unencumbered of debt. In addition, we paid closing costs of $151 and acquired approximately $511 in net working capital.

On September 1, 2010, we entered into a purchase and sale agreement with an unrelated third party and closed on the acquisition of the Hampton Inn, Washington, DC. The total purchase price for this hotel was $73,096, which was paid in cash provided by borrowings under our revolving line of credit. In addition, we paid closing costs of $1,188 and acquired approximately $304 in net working capital assets.

On December 28, 2010 we closed on the acquisition of a parcel of land which includes a multi-story vacant hotel building with an unrelated third party in New Castle, DE. The total purchase price for this hotel was $15,301, which was paid in cash. We have begun the process of converting this hotel building into a branded hotel. The conversion has an estimated completion date of June 2011.

As shown in the table below, included in the consolidated statements of operations for the year ended December 31, 2010 are total revenues of $46,147 and total net income of $7,518 for the hotels we acquired a 100% interest in since January 1, 2010. These amounts represent the results of operations for such hotels since the date of acquisition of our 100% interest in such hotels.

	Twelve Months Ended, December 31, 2010	
Hotel	Revenue	Net (Loss) Income
Hilton Garden Inn, Glastonbury, CT	$ 5,046	$ (142)
Hampton Inn, Holiday Inn Express, Candlewood Suites, Times Square, NY	32,681	7,025
Holiday Inn, Wall Street, NY	4,496	962
Hampton Inn, Washington, DC	3,924	(327)
Total	$ 46,147	$ 7,518

During the year ended December 31, 2009 we acquired the following wholly owned hotel properties:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees, Loan Costs, and Leasehold	Construction in Progress	Total Purchase Price	Fair Value of Assumed Debt

					Intangible			
Hilton Garden Inn, TriBeCa, New York, NY	6/30/2009	$ 21,077	$ 42,955	$ 2,668	$ 300	$ -	$ 67,000	$ 29,824
Hampton Inn, West Haven, CT	11/4/2009	1,053	10,751	1,196	-	-	13,000	7,700
Total		$ 22,130	$ 53,706	$ 3,864	$ 300	$ -	$ 80,000	$ 37,524

On May 1, 2009, we acquired, from an unaffiliated seller, a 49% membership interest in York Street, LLC, the owner of the Hilton Garden Inn, TriBeCa, New York, NY. In connection with the acquisition of our 49% interest in York Street, LLC, we also entered into an option agreement to acquire the seller's remaining 51% interest in York Street, LLC. On June 30, 2009, we exercised the option and acquired the remaining 51% interest in York Street, LLC making the Hilton Garden Inn, TriBeCa, New York, NY, wholly owned. Consideration given as of the purchase date to acquire our 100% interest in York Street, LLC included:

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (continued)

Cash paid to seller	$4,794	
Amounts payable to seller	1,387	(1)
Settlement of development loans receivable and accrued interest income on development loans	19,555	(2)
Land and mortgage transferred to seller	10,118	(3)
Assumption of York Street, LLC mortgage loan payable	29,824	(4)
Net hotel working capital liabilities assumed	1,322	
Total consideration given	$67,000	

(1) "Cash payable to the seller" of $1,387 was held back at settlement pending the seller's completion of certain capital expenditures and the delivery on the Company's obligation to transfer land to the seller.
(2) "Settlement of development loans receivable and accrued interest income on development loans" consists of principal and accrued interest receivable reductions with respect to development loans made to York Street, LLC and Maiden Hotel, LLC, an entity controlled by the seller. See "Note 4 – Development Loans Receivable and Land Leases" for more information related to the development loans made to York Street, LLC and Maiden Hotel, LLC.
(3) "Land and mortgage transferred to seller" consisted of our investment in real property at 440 West 41st Street, New York, NY, and related land lease revenue receivable. This parcel was acquired on July 28, 2006 and leased to Metro Forty First Street, LLC, an entity controlled by the seller. In connection with our acquisition of the membership interests in York Street, LLC, we transferred this property to Metro Forty First Street, LLC, and that entity assumed our obligations under the $12,100 mortgage loan encumbering the property.
(4) The mortgage loan assumed in connection with the acquisition of York Street, LLC, which is secured by the Hilton Garden Inn, TriBeCa, New York, NY, was refinanced on August 7, 2009 with a $29,824 first mortgage loan which matures in July 2012 and bears interest at the Wall Street Journal variable prime rate plus 2.0% subject to an interest rate floor of 8.75%.

We recorded an intangible asset for the lease of restaurant space located in the Hilton Garden Inn, TriBeCa, New York, NY that was in place at the time of acquisition. The lease is with an unrelated third party and has 15 years remaining until expiration with one five year extension option. We earn fixed rent under this lease at a minimum of $300 per annum for the first five years of the lease and a minimum of $336 and $376 per annum for the second and third five-year periods of the lease, respectively.

On November 4, 2009, we entered into a contribution agreement and closed on the acquisition of 100% of the membership interests in 44 West Haven Hospitality, LLC, the owner of the Hampton Inn and Suites, West Haven, CT. The aggregate purchase price paid for the membership interests in 44 West Haven Hospitality, LLC was approximately $13,000, including the assumption of $7,700 of existing mortgage debt secured by a first lien on the Hampton Inn and Suites, West Haven, CT, the release of $2,000 of existing mezzanine financing provided by us to 44 West Haven Hospitality, LLC, the cancellation of approximately $200 in accrued interest related to the existing mezzanine financing and approximately $3,100 of cash. The assumed mortgage debt bears interest at a fixed rate of 6.0% and matures in November 2012, with a three year extension subject to approval by the lenders. In addition, we paid the lenders a modification fee of $39. Certain of our officers and affiliated trustees had direct or indirect interests in 44 West Haven Hospitality, LLC. As a related party transaction, the transaction was approved by all of our independent trustees. HHMLP will continue to manage the Hampton Inn and Suites, West Haven, CT.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (continued)

Pro Forma Results (Unaudited)

The following condensed pro forma financial data is presented as if all acquisitions had been completed on January 1, 2009. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated on January 1, 2009 at the beginning of the year presented, nor does it purport to represent the results of operations for future periods.

	For the Year Ended December 31,	
	2010	2009
Pro Forma Total Revenues	$294,049	$260,145
Pro Forma (Loss) income from Continuing Operations	$(13,698)	$(53,548)
Income (Loss) from Discontinued Operations	471	2,308
Pro Forma Net (Loss) income	(13,227)	(51,240)
Loss (Income) allocated to Noncontrolling Interest	605	7,543
Preferred Distributions	(4,800)	(4,800)
Pro Forma Net (Loss) income applicable to Common Shareholders	$(17,422)	$(48,497)
Pro Forma (Loss) income applicable to Common Shareholders per Common Share		
Basic	$(0.16)	$(0.95)
Diluted	$(0.16)	$(0.95)
Weighted Average Common Shares Outstanding		
Basic	134,370,172	51,027,742
Diluted	134,370,172	51,027,742

Renovation

On April 2, 2010, we commenced renovations to convert two of our existing adjoining hotel properties in King of Prussia, PA into a Hyatt Place. The hotels previously operated as a Mainstay Suites and a Sleep Inn and were closed at the time renovations commenced. As such, we ceased recording depreciation expense on the two existing properties and we capitalized the cost of construction, including interest, during the period of time the hotel was under renovation. On August 17, 2010, the renovations were completed and the hotel opened. We capitalized approximately $6,471 in renovation costs, which are included in Investment in Hotel Properties on the consolidated balance sheet.

Earn-out Provisions

Purchase agreements related to the Holiday Inn Express, Camp Springs, MD and Hampton Inn and Suites, Smithfield, RI hotels contained certain earn-out provisions that entitled the seller to a payment based on operating metrics of the hotel properties. As of December 31, 2010, the earnout period expired for these properties. These properties did not meet the required net operating income thresholds established in the properties' purchase agreements. As such, no amounts were paid or are payable to the sellers under these earn-out provisions.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of December 31, 2010 and December 31, 2009 our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned		Preferred Return	December 31, 2010		December 31, 2009	
PRA Glastonbury, LLC	Hilton Garden Inn, Glastonbury, CT	48.0	%	11.0% cumulative	$	-	$	561
Inn American Hospitality at Ewing, LLC	Courtyard by Marriott, Ewing, NJ	50.0	%	11.0% cumulative		28		459
Hiren Boston, LLC*	Courtyard by Marriott, Boston, MA	50.0	%	N/A		-		-
SB Partners, LLC	Holiday Inn Express, Boston, MA	50.0	%	N/A		1,852		1,934
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT and RI	8.8%-66.7	%	8.5% non-cumulative		25,935		27,043
PRA Suites at Glastonbury, LLC**	Homewood Suites, Glastonbury, CT	48.0	%	10.0% non-cumulative		-		1,754
Metro 29th Street Associates, LLC	Holiday Inn Express, New York, NY	50.0	%	N/A		7,746		7,431
					$	35,561	$	39,182

*During the year ended December 31, 2009, we determined that our investment in the Courtyard by Marriott, Boston, MA was impaired. As a result, the Company recorded an impairment charge of $3,500 which is included in loss from unconsolidated joint venture investments on the Company’s consolidated statements of operations. This charge reduced our investment in the Courtyard by Marriott, Boston, MA to $0.

**During the year ended December 31, 2009, we determined that our investment in the Homewood Suites, Glastonbury, was impaired. As result, the Company recorded an impairment charge of $1,041 which is included in loss from unconsolidated joint venture investments on the Company’s consolidated statements of operations. This charged reduced our investment in the Homewood Suites, Glastonbury, to $1,754.

On January 1, 2010, we acquired our joint venture partner’s 52.0% membership interest in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and this hotel became one of our wholly-owned hotels. The consideration provided to our joint venture partner in exchange for its 52.0% membership interest consisted of:

- cash of $253;
- our 48% minority membership interest in PRA Suites at Glastonbury, LLC, the owner of the Homewood Suites, Glastonbury, CT;
-

settlement of a note receivable and accrued interest made to our former joint venture partner with a principal balance of $1,267 and accrued interest receivable of $141; and

- our assumption of the outstanding mortgage debt secured by the Hilton Garden Inn, Glastonbury, CT which had an outstanding principal balance of $13,141 as of December 31, 2009, bears interest at a fixed rate of 5.98% per annum and has an anticipated maturity date of April 1, 2016.

As a result of this transaction, our joint venture partner acquired our 48.0% minority membership interest in PRA Suites at Glastonbury, LLC, the entity owning the Homewood Suites, Glastonbury, CT, and assumed the outstanding mortgage debt secured by the Homewood Suites, Glastonbury, CT.

Due to the increase in our ownership interest in PRA Glastonbury, LLC, the value of our existing 48.0% interest was remeasured resulting in a $1,818 gain which was recorded upon our acquisition of the remaining interests in the Hilton Garden Inn, Glastonbury, CT.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

Hiren Boston, LLC, a joint venture that owns the 164-room Courtyard by Marriott located in South Boston, MA, had been pursuing discussions with its lender to refinance a $16,200 mortgage loan secured by the hotel property, which had originally matured in September 2009. On April 13, 2010, we purchased this mortgage loan from the lender, which had an unamortized principal balance of $15,628, for a purchase price of $13,750, and amended the terms of the note. As amended, this $13,750 mortgage loan now requires the joint venture to make monthly interest payments beginning on May 1, 2010, bears interest at a fixed rate of 10% per annum and matures on April 13, 2012. As a result of the purchase of this mortgage loan, we have determined that we are the primary beneficiary of Hiren Boston, LLC. As of April 13, 2010, we no longer accounted for our investment in Hiren Boston, LLC under the equity method of accounting and began accounting for Hiren Boston, LLC as a consolidated subsidiary. Hiren Boston, LLC's results of operations are included in our consolidated statement of operations for the period from April 13, 2010 through December 31, 2010 and its balance sheet is included in our consolidated balance sheet as of December 31, 2010. Our interest in Hiren Boston, LLC was remeasured, and as a result, we recorded a gain of approximately $2,190.

During the year ended December 31, 2008, we determined that our investment in the Hartford Hilton, part of the Mystic Partners joint venture portfolio, was impaired. As a result, the Company recorded an impairment charge of $1,890 which is included in loss from unconsolidated joint venture investments on the Company's consolidated statements of operations. This charge reduced our investment in the Hartford Hilton to $0.

Income or loss from our unconsolidated joint ventures is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets. Income (loss) recognized during the years ended December 31, 2010, 2009, and 2008 for our Investments in Unconsolidated Joint Ventures is as follows:

	Twelve Months Ended December 31,		
	2010	2009	2008
PRA Glastonbury, LLC	$ -	$ (77)	$ 94
Inn American Hospitality at Ewing, LLC	(331)	(127)	20
Hiren Boston, LLC	-	(460)	(189)
SB Partners, LLC	(83)	(156)	80
Mystic Partners, LLC	(1,650)	(1,686)	(345)
PRA Suites at Glastonbury, LLC	-	(6)	(8)
Metro 29th Street Associates, LLC	313	(137)	1,721
	(1,751)	(2,649)	1,373
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	4,008	-	-
Less: Impairment of Investment in Unconsolidated Joint Venture	-	(4,541)	(1,890)
Income (Loss) from Unconsolidated Joint Venture Investments	$ 2,257	$ (7,190)	$ (517)

The Mystic Partners, LLC joint venture agreement provides for an 8.5% non-cumulative preferred return based on our contributed equity interest in the venture. Cash distributions will be made from cash available for distribution, first, to us to provide an 8.5% annual non-compounded return on our unreturned capital contributions and then to our joint venture partner to provide an 8.5% annual non-compounded return of their unreturned contributions. Any remaining cash available for distribution will be distributed to us 10.5% with respect to the net cash flow from the Hartford Marriott, 7.0% with respect to the Hartford Hilton and 56.7%, with respect to the remaining seven properties. Mystic Partners, LLC allocates income to us and our joint venture partner consistent with the allocation of cash distributions in accordance with the joint venture agreements.

Each of the Mystic Partners, LLC hotel properties, except the Hartford Hilton, is under an Asset Management Agreement with 44 New England to provide asset management services. Fees for these services are paid monthly to 44 New England and recognized as income in the amount of 1% of operating revenues, except for the Hartford Marriott which is 0.25% of operating revenues.

The Company and our joint venture partner in Mystic Partners, LLC jointly and severally guarantee the performance of the terms of a loan to Adriaen's Landing Hotel, LLC, owner of the Hartford Marriott, in the amount of $50,000, and 315 Trumbull Street Associates, LLC, owner of the Hartford Hilton, in the amount of $27,000, if at any time during the term of the note and during such time as the net worth of Mystic Partners falls below the amount of the guarantee. We have determined that the probability of incurring loss under this guarantee is remote and the value attributed to the guarantee is de minimis.

Table of Contents

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

The following tables set forth the total assets, liabilities, equity and components of net income, including the Company's share, related to the unconsolidated joint ventures discussed above as of December 31, 2010 and December 31, 2009 and for the years ended December 31, 2010, 2009, and 2008.

Balance Sheets

	December 31, 2010	December 31, 2009
Assets		
Investment in hotel properties, net	$144,675	$196,842
Other Assets	27,970	28,473
Total Assets	$172,645	$225,315
Liabilities and Equity		
Mortgages and notes payable	$156,976	$218,116
Other liabilities	37,797	18,219
Equity:		
Hersha Hospitality Trust	38,394	44,178
Joint Venture Partner(s)	(60,522)	(55,198)
Total Equity	(22,128)	(11,020)
Total Liabilities and Equity	$172,645	$225,315

Statements of Operations

	Twelve Months Ended December 31,		
	2010	2009	2008
Room Revenue	$74,817	$81,718	$