

Hersha Hospitality Announces Second Quarter 2007 Earnings

2007-08-09

Consolidated RevPAR Increased 17%

Year-over-Year Second Quarter 2007 and Other Highlights

- * Adjusted FFO ('AFFO') Improved 20% to \$0.42 Per Diluted Share
- * Consolidated RevPAR Increased 17%
- * Consolidated Adjusted EBITDA Grew 71%
- * Consolidated Adjusted EBITDA Margin Expanded 110 Basis Points
- * Revises 2007 AFFO Guidance to \$1.16 to \$1.18 per share from \$1.14 to \$1.18 per share

Hersha Hospitality Trust (AMEX: HT) owner of nationally franchised premium full service and limited service hotels, announced earnings for the second quarter ended June 30, 2007.

Financial Highlights for the Second Quarter 2007

Net income applicable to common shareholders for the second quarter of 2007 was \$6.6 million, or \$0.16 per common share as compared to net income of \$2.2 million, or \$0.09 per common share for the second quarter of 2006. Over the last year, the Company has transformed its portfolio by purchasing high quality hotels with premium revenue per available room (RevPAR) in key markets such as New York and Northern California on an accretive basis. Additionally, several of Hersha's younger hotels have begun to stabilize their occupancy levels, resulting in increased contribution to the Company's cash flow and earnings.

Operating income for the three months ended June 30, 2007 was \$17.9 million compared to \$9.2 million for the same period in 2006. The increase in operating income resulted from strong revenue improvement from growth in average daily rate (ADR), the addition of 13 hotels over the last year and growth in the size of the average hotel in the Company's portfolio, each of which has increased the scale of Hersha's operations enabling the Company to better absorb administrative costs. Adjusted funds from operations (AFFO) for the second quarter of 2007 increased to \$0.42 per diluted common share and unit from \$0.35 per diluted common share and unit for the same quarter of 2006. A reconciliation of AFFO to net income applicable to common shares, the most directly applicable U.S. GAAP measure, is included at the end of this release.

Mr. Jay H. Shah, Chief Executive Officer, noted, 'Our second quarter and first half of 2007 results showed excellent progress by a number of metrics. We had very strong double-digit RevPAR growth and we expanded our consolidated hotel margins. During the quarter, we added our 13th hotel in the New York City metropolitan market with the purchase of the Hotel 373 in Manhattan and bolstered our presence with several development investments. Additionally, we made progress on our goal of increasing the percentage ownership of our unconsolidated hotels with increased ownership of our two Glastonbury, Connecticut properties.'

For the three-month period ended June 30, 2007, consolidated total hotel operating revenues increased 66% to \$63.5 million from \$38.2 million in the second quarter of 2006 driven primarily by hotel acquisitions and growth in room revenues. RevPAR for the Company's consolidated hotels (57 hotels) increased 16.7% on a year-over-year basis to \$104.04 driven by a 14.0% increase in ADR to \$130.21 and a 183 basis point improvement in occupancy to 79.90% for the quarter.

Gross operating profit (GOP) margins for the Company's consolidated hotels increased approximately 170 basis points to 48.8% from 47.1%, as compared to the second quarter of 2006. GOP margins improved as a result of stronger top-line performance and the impact of rate based revenue growth. A result of growth in the company's portfolio and an improved mix of hotels with higher margins, adjusted EBITDA for consolidated hotels increased 71% to \$25.8 million for the second quarter of 2007 as compared to the second quarter 2006. Adjusted EBITDA margins for the quarter increased 110 basis points to 40.6% for the Company's consolidated hotel portfolio.

On a same-store basis for Hersha's consolidated hotels (35 hotels), RevPAR for the second quarter of 2007 increased 8.8% on a year-over-year basis to \$102.12 driven by a 6.8% increase in ADR to \$127.50 and a 145 basis points improvement in occupancy to 80.09%. Same-store Adjusted EBITDA for the second quarter of 2007 increased 6.1% to \$15.9 million. The Company's same-store Adjusted EBITDA margin declined 81 basis points to 40.0% for the second quarter of 2007, as compared to the second quarter of 2006. Renovation disruptions at several stabilized properties, increases in utilities expenses, real estate taxes and new brand initiatives accounted for the majority of the decline in margins.

Other Second Quarter 2007 Highlights

- * On June 1, the Company finalized the acquisition of the newly opened 70-room Hotel 373, located at 373 Fifth Avenue at 35th Street, in midtown Manhattan for \$28.0 million and the associated \$6.0 million acquisition of a Starbucks leasehold interest.

* The Company also made several investments in its development financing program. Hersha purchased a land parcel in Brooklyn, New York, which will be used for an all suite hotel development and issued a \$15.0 million mezzanine loan for a select service hotel in Lower Manhattan.

These transactions are detailed in the supplemental schedules at the end of this release and posted to the 'presentations and supplemental schedules' page of the Company's Web site.

Subsequent Events

* On July 1, Hersha completed the purchase of the 134-room Holiday Inn-Norwich, Connecticut for \$16.1 million, including the assumption of \$8.2 million in debt.

* The Company also purchased a second parcel of land in Brooklyn adjacent to its existing parcel, as a part of a two parcel assemblage, for \$7.5 million for the development of an all suite hotel development.

Balance Sheet

At June 30, 2007, Hersha Hospitality Trust had approximately \$680.4 million of total consolidated debt outstanding, which included approximately \$51.5 million of Trust Preferred Securities. Fixed rate debt, including variable rate debt fixed by an interest rate swap, amounted to approximately 91% of total consolidated debt. The weighted average interest rate on all of the Company's fixed rate debt was approximately 6.20% for the second quarter. The weighted average life to maturity of the Company's debt was 8.6 years. Total common shares and units of limited partnership interest of Hersha Hospitality Limited Partnership, the Company's operating partnership subsidiary, outstanding at June 30, 2007 were 46.6 million.

The Company ended the second quarter of 2007 with \$68.0 million in development loans and land leases outstanding to nine hotel development projects.

Mr. Shah commented, 'We have been able to replace most of the paydowns in our development loans with new Manhattan development opportunities with similar yields. Our development investments continue to demonstrate the depth of our relationships in New York City, the nation's best lodging market and a market to which we have a long-term ownership commitment.'

Dividend

For the second quarter of 2007, Hersha Hospitality Trust declared common share and limited partnership unit dividends of \$0.18 per common share and unit. The Company's common dividend represents the 33rd consecutive quarterly dividend at this amount since the Company's 1999 initial public offering and represents a yield of approximately 6.9% based upon the closing price of Hersha Hospitality Trust stock on August 7, 2007. Hersha's annualized dividend of \$0.72 per common share is approximately 61-62% of the Company's forecasted AFFO for the fiscal year ending December 31, 2007. The Board of Trustees also declared a second quarter cash dividend of \$0.50 per Series A Preferred Share.

Financial Outlook for 2007

Assuming a continued strong U.S. economy and limited supply growth in its markets, the Company anticipates that its current portfolio will contribute to another year of strong growth in AFFO in 2007. The Company is updating its financial guidance for the full year ended December 31, 2007 as follows:

Net income available to common shareholders is now expected to be \$10.25 million to \$11.5 million, or \$0.22 to \$0.25 per weighted average diluted share outstanding. This is revised from previous financial guidance due to completed acquisitions, increased development loans and increased depreciation and amortization from the acquisition of hotels.

* 2007 Adjusted EBITDA is now expected to be \$111.5 million to \$113.0 million

* 2007 AFFO is now expected to be \$1.16 to \$1.18 per weighted average diluted share outstanding

The Company's expectations for net income available to common shareholders, net income available to common shareholders per weighted average diluted share outstanding, Adjusted EBITDA and AFFO per diluted share for the full year ended December 31, 2007 are based upon the Company achieving consolidated same-store RevPAR growth of 6.5% to 8.5% and consolidated portfolio RevPAR growth of 12% to 14%, as compared to the full year 2006.

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