HERSHA HOSPITALITY TRUST
Form 424B4
April 20, 2004
Table of Contents

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Registration No. 333-113227

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS SUPPLEMENT Subject To Completion April 19, 2004

(To Prospectus dated March 26, 2004)

2,500,000 Shares

Hersha Hospitality Trust

Common Shares

One of our shareholders, CNL Hospitality Partners, L.P. (or CNL), is offering 2,500,000 of our common shares owned by them. We will not receive any of the proceeds from the sale of common shares.

Our common shares are listed on the American Stock Exchange under the symbol HT . The last reported sale price of our common shares on the American Stock Exchange on April 16, 2004 was $10.80 per share.

Investing in our common shares involves a high degree of risk. Before buying any shares, you should carefully read the discussion of material risks of investing in our common shares under the heading Risk Factors beginning on page S-13 of this prospectus supplement and page 5 of the accompanying prospectus.

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

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to CNL	$	$

The underwriter may also purchase from CNL up to an additional 316,460 common shares at the public offering price less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus. The underwriter may exercise this option only to cover any over-allotments.

The underwriter is offering the common shares as described under Underwriting. Delivery of the common shares will be made on or about April , 2004.

UBS Investment Bank

Table of Contents

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not and the underwriter has not authorized anyone to provide you with information that is different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We are not offering to sell or seeking offers to buy common shares in jurisdictions where offers and sales are not permitted. The information contained in the prospectus supplement and in the accompanying prospectus is accurate only as of the date of this prospectus supplement regardless of the time of delivery of this prospectus supplement or the accompanying prospectus or any sales of common shares.

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

Table of Contents

References to our company, we, and our in this prospectus supplement and the accompanying prospectus mean Hersha Hospitality Trust, including, unless the context otherwise requires (including the discussion of Federal Income tax treatment of Hersha Hospitality Trust and its shareholders), our operating partnership and other direct and indirect subsidiaries. Our operating partnership refers to Hersha Hospitality Limited Partnership, a Virginia limited partnership. HHMLP refers to Hersha Hospitality Management, L.P. and its subsidiaries, which are the entities that lease or manage all of our hotels. Common shares means our Priority Class A common shares of Beneficial Interest, par value $0.01 per share. CNL means CNL Hospitality Partners, L.P., a Delaware limited partnership, CNL Hospitality GP Corp., a Delaware corporation and general partner of CNL Hospitality Partners, L.P., and CNL Hospitality Properties, Inc., a Maryland real estate investment trust and sole shareholder of CNL Hospitality GP Corp.

Table of Contents

Prospectus supplement summary

The following summary highlights information contained elsewhere in this prospectus supplement. We encourage you to read carefully the entire prospectus supplement and the accompanying prospectus and the other documents referred to as incorporated by reference herein. The statements that we make about the contents of those documents are not necessarily complete and are qualified in their entirety by the contents of those documents, which are filed with the Securities and Exchange Commission. See How to Obtain More Information in the accompanying prospectus.

Our Company

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. We focus primarily on owning and operating high quality, mid-scale limited service hotels in established markets in the Eastern United States. Our primary strategy is to continue to acquire high quality, mid-scale hotels in metropolitan markets with high barriers to entry in the Northeastern United States. As of March 31, 2004, our portfolio consisted of 25 hotels with a total of 2,570 rooms located in Pennsylvania, New York, New Jersey, Maryland, Georgia, Connecticut, and Massachusetts which operate under leading brands, such as Hampton Inn®, Hilton Garden Inn®, Holiday Inn®, Holiday Inn Express®, DoubleTree®, Comfort Inn®, Comfort Suites®, Mainstay Suites®, Sleep Inn®, Sheraton Four Points®, and Residence Inn®.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels through our operating partnership, Hersha Hospitality Limited Partnership, for which we serve as general partner. All of our hotels are managed by Hersha Hospitality Management, L.P., or HHMLP, a private management company owned by certain of our trustees, officers and other third party investors. In response to tax law changes, we recently formed a wholly-owned taxable REIT subsidiary, or TRS, to which we lease fourteen hotels as of March 31, 2004 and to which we intend to lease all of our hotels, including hotels we may acquire in the future and hotels currently leased to HHMLP as those leases expire. We believe that transitioning to this TRS structure positions us to participate more directly in the operating efficiencies and revenue gains at our hotels.

Our address is 148 Sheraton Drive, Box A, New Cumberland, Pennsylvania 17070. Our telephone number is (717) 770-2405.

Market Opportunity

We believe that it is an opportune time in the business cycle to acquire mid-scale hotels. Industry forecasts and historical data lead us to believe that we are at the bottom of the economic and lodging cycle. As of February 2004, the Americas Hospitality & Leisure Consulting Practice at PricewaterhouseCoopers, L.L.P. predicts 5.2% and 3.9% annual growth in revenue per available room, or RevPAR, for the mid-scale limited service segment in 2004 and 2005, respectively. Accordingly, we believe that investments in hotels at this point in the cycle will benefit from the improving fundamentals in the lodging sector.

As a result of our competitive strengths, described below, we believe that we are well positioned to take advantage of opportunities created by these market characteristics.

Table of Contents

Competitive Strengths

Our Existing Portfolio

- Ø High Quality Hotels. We own and operate high quality hotels operating under popular mid-scale brands such as Hampton Inn®, Hilton Garden Inn®, Holiday Inn®, Holiday Inn Express®, Double Tree®, Comfort Suites®, Mainstay Suites®, Sleep Inn®, Sheraton Four Points® and Residence Inn®. Since we acquire primarily newly constructed hotels, the median age of our hotels is only four years. In addition, we invest substantially to maintain the quality and appeal of our portfolio. We reserve approximately 4% or more of the gross revenues of each hotel for maintenance capital expenditures, and in order to strengthen the appeal of our hotels, we have actually invested approximately 5.2%, 5.4%, and 6.3% of revenue in maintenance capital expenditures in 2003, 2002 and 2001, respectively.

- Ø Proven Operator. Based on Smith Travel Research, our hotels have outperformed those of our competitors, as evidenced by our weighted average RevPAR indexed against comparable hotels in our markets of 108.5% for the twelve months ended December 31, 2003. We and our affiliated management company have been successful in reducing operating expenses and realizing the benefits of shared marketing efforts by clustering our hotels in geographic areas, such as metropolitan New York, Philadelphia, Pennsylvania, Atlanta, Georgia and Central Pennsylvania. Our hotel net operating margin for our mid-scale limited service hotels managed by our affiliated management company for all of 2002 was 38.6% compared to the industry average for mid-scale limited service hotels of 33.0% for the same period, as reported by Smith Travel Research. In addition, we are positioning ourselves to participate more directly in the operating efficiencies and revenue gains at our hotels through our transition to a TRS structure.

- Ø Stable Performance. We operate in the mid-scale, limited service segment of the lodging industry, which we believe is less vulnerable to demand swings and offers more consistent operating performance. According to PricewaterhouseCoopers, L.L.P., in 2003, lodging industry RevPAR increased 0.3% while mid-scale without food and beverage RevPAR increased 0.5%. In addition, we believe the quality of our management and our focus on higher barrier to entry markets further insulate our performance from economic downturns. Accordingly, our same hotel RevPAR (excluding our Georgia properties, which were managed by an independent third party until April and May of 2003) increased 4.6% in 2003 for our 16 hotels that were open for all of 2002 and 2003.

Growth Platform

- Ø Acquisition Experience. We acquire high quality mid-scale limited service hotels in the Northeastern United States clustered in targeted metropolitan markets with high barriers to entry. We believe that this market segment has attractive fundamental investment characteristics and that our familiarity with our target markets has enabled, and will continue to enable, us to effectively identify opportunities and close acquisitions in those markets. The portfolio we owned and managed for all of 2002 and 2003 (excluding our Georgia properties, which were managed by an independent third party until April and May of 2003) yielded a 10.3% and 10.2% unleveraged return based on net operating income after reserves for furniture, fixtures and equipment, or FF&E, divided by historical purchase price.

- Ø Active Portfolio Management. We continuously evaluate and adjust our hotel portfolio to achieve our investment criteria for size, brand affiliation and strategic fit. We monitor the cash flow potential for each hotel and its ability to remain accretive to our portfolio. Our decision to sell an asset is often predicated upon market dynamics, asset potential and long term strategic goals. Since our initial public offering in 1999, we have sold eight hotels and redeployed that capital to purchase additional hotels consistent with our long-term growth strategy.

Table of Contents

Experienced Leadership

- Ø Management and Board. Our management team has an average of 11 years of industry experience and has worked together building our company since 1999. Our CEO, Hasu Shah, purchased his first hotel in 1984 and together with our management team assembled the assets which comprise our portfolio today. In addition, five of our seven trustees are independent and have significant industry experience. Our independent trustees include Michael Leven, former President of Holiday Inn Worldwide and Days Inn, Don Landry, former CEO of Sunburst Hospitality, and John Sabin, former CFO and Treasurer of Vistana and Vice President Finance of Choice Hotels.

- Ø Substantial Economic Interest. Our management has a substantial economic interest in our company. As of March 31, 2004, our officers and trustees owned common shares and limited partnership units in our operating partnership representing approximately 13.46% of our common shares on an as-converted basis.

Consistent Dividends

- Ø Since our initial public offering in January of 1999, we have made 19 consecutive quarterly distributions to holders of the common shares of $0.18 per share, which annualizes to $0.72 per share. We have also paid an equivalent distribution to holders of common limited partnership units in our operating partnership for the same periods. While it is the current policy of our Board of Trustees to maintain our dividend at this level, future distributions will be authorized by our Board of Trustees based upon a number of factors, including the amount of funds from operations and such other factors as the trustees 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 our hotels.

Business Strategy

Increase Same Hotel Growth

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

- Ø increasing occupancy levels and RevPAR through active property-level management by HHMLP, including (i) intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers, and (ii) expanded yield management programs, which are calculated to better match rates to periods of high demand; and

- Ø positioning our hotels to capitalize on increased demand in the mid-scale lodging segment due to the expected economic recovery by managing costs and thereby maximizing earnings.

Acquisition Platform

Our primary strategy is to continue to acquire high-quality, mid-scale hotels in metropolitan markets with high barriers to entry in the Northeastern United States. We believe that current market conditions are creating opportunities to acquire hotels at attractive prices. In executing our disciplined acquisition program, we intend to acquire hotels that meet the following additional criteria:

- nationally-franchised hotels operating under popular brands, such as Hampton Inn®, Hilton Garden Inn®, Embassy Suites®, Marriott Courtyard®, Residence Inn® and Holiday Inn Express® hotels;

Table of Contents

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

- hotels in our target markets where we can create clusters and realize economies of scale.

In addition to the recent acquisitions described below, in the ordinary course of our business, we are actively considering hotel acquisition opportunities. We are currently reviewing hotel acquisition opportunities located in our target markets with an aggregate purchase price in excess of $250 million, including hotels being developed by entities controlled by some of our officers and trustees, which hotels we have an option to acquire. However, each of these acquisitions is subject to due diligence, financing and negotiation of the purchase price and other key terms. There can be no assurance that we will be able to consummate any of these acquisition opportunities.

Prudent Use of Leverage

The relative stability of the mid-scale segment of the lodging industry allows us to increase returns to our shareholders through the prudent application of leverage. Our strategy is to maintain target debt levels of approximately 60% of the total purchase price of our hotels both on an individual and aggregate basis, and our Board of Trustees policy is to limit indebtedness to no more than 67% of the total purchase price of all our hotels on an aggregate basis. 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 modestly greater leverage across our portfolio if and when warranted by prevailing market conditions.

Table of Contents

Properties

Existing Properties

Set forth below is tabular information regarding our owned hotels as of and for the year ended December 31, 2003.

			Twelve Months Ended December 31, 2003				
	Year Opened	Number of Rooms	Room Revenue	Other Revenue(1)	Occupancy	Average Daily Rate	REVPAR(2)
Hotels							
Comfort Inn:							
Harrisburg, PA	1998	81	$ 1,538,805	$ 24,775	66.6%	$ 80.14	$ 53.34
Comfort Suites:							
Duluth, GA	1996	85	$ 1,125,666	$ 38,593	60.2%	$ 60.27	$ 36.28
Doubletree Club:							
Jamaica, NY	2002	110	$ 2,891,053	$ 499,146	72.4%	$ 99.40	$ 72.01
Hampton Inn:							
Peachtree City, GA	1994	61	$ 1,071,804	$ 23,346	68.4%	$ 70.37	$ 48.14
Newnan, GA	1996	91	$ 1,392,403	$ 30,073	63.7%	$ 65.80	$ 41.92
Selinsgrove, PA (3)	1996	75	$ 1,830,868	$ 26,451	72.5%	$ 93.55	$ 67.78
Carlisle, PA	1997	95	$ 2,163,173	$ 23,803	72.9%	$ 83.80	$ 61.10
Danville, PA	1998	72	$ 1,448,379	$ 26,144	67.6%	$ 81.55	$ 55.11
Hershey, PA	1999	110	$ 2,911,057	$ 61,259	56.7%	$ 127.92	$ 72.50
Linden, NJ (4)	2003	149	$ 688,645	$ 22,624	49.0%	$ 102.60	$ 50.24
Hilton Garden Inn:							
Edison, NJ (4)	2003	132	$ 701,033	$ 240,951	55.1%	$ 104.68	$ 57.73
Holiday Inn Hotel and Conference Center:							
Harrisburg, PA	1970	196	$ 3,285,380	$ 2,298,141	65.6%	$ 69.66	$ 45.69
Holiday Inn Express:							
Duluth, GA	1996	68	$ 1,006,661	$ 30,842	60.5%	$ 67.07	$ 40.56
Hershey, PA	1997	85	$ 2,017,802	$ 27,246	70.5%	$ 100.76	$ 71.07
New Columbia, PA	1997	81	$ 1,379,094	$ 21,207	58.4%	$ 80.81	$ 47.23
Long Island City, NY	2001	79	$ 2,057,964	$ 34,430	72.4%	$ 98.57	$ 71.37
Holiday Inn Express and Suites:							
Harrisburg, PA	1997	77	$ 1,524,057	$ 17,347	68.2%	$ 80.52	$ 54.94
Mainstay Suites:							
Frederick, MD	2000	72	$ 1,082,917	$ 24,661	62.0%	$ 65.82	$ 40.80
King of Prussia, PA	2000	69	$ 1,344,298	$ 73,429	65.4%	$ 80.98	$ 53.00
Sleep Inn:							
King of Prussia, PA	2000	87	$ 1,117,750	$ 15,465	55.5%	$ 68.68	$ 38.13
Total		1,875	$ 32,578,809	$ 3,560,933			
Total Revenues			$ 36,139,742				

Weighted average	63.5%	$ 85.57	$ 54.06

(1) Represents restaurant revenue, telephone revenue and other revenue.
(2) REVPAR is determined by dividing room revenue by available rooms for the applicable period.
(3) A portion of the land adjacent to this hotel, which is not currently used for hotel operations, is leased to an affiliate for $1 per year for 99 years.
(4) We assumed operations of this hotel in October 2003.

Table of Contents

The following table sets forth certain information with respect to the hotels we owned through joint ventures with third parties as of December 31, 2003.

	Year Opened	Number of Rooms	Twelve Months Ended December 31, 2003 Room Revenue	Other Revenue(1)	Occupancy	Average Daily Rate	REVPAR(2)
Hotels							
Hampton Inn:							
Chelsea, NY (3)	2003	144	$ 2,015,202	$ 11,830	76.6%	$ 143.91	$ 110.19
Hilton Garden Inn:							
Glastonbury, CT (4)	2003	150	$ 203,785	$ 57,122	24.9%	$ 111.42	$ 27.73
Total		294	$ 2,218,987	$ 68,952			
Total Revenues			$ 2,287,939				
Weighted average							