HERSHA HOSPITALITY TRUST
Form S-2/A
October 06, 2003
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As filed with the Securities and Exchange Commission on October 6, 2003

Registration No. 333-109100

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

AMENDMENT NO. 1

TO

FORM S-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in its Governing Instruments)

148 Sheraton Drive, Box A

New Cumberland, PA 17070

(717) 770-2405

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

Ashish R. Parikh

Chief Financial Officer

Hersha Hospitality Trust

148 Sheraton Drive, Box A

New Cumberland, PA 17070

(717) 770-2405

(717) 774-7383 (Telecopy)

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

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

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this form, check the following box. ¨

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Shares To Be Registered	Amount To Be Registered (2)	Proposed Maximum Offering Price Per Share (1)	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee (3)
Class A Common Shares	8,625,000	$8.98	$77,452,500	$6,266

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 under the Securities Act of 1933, based upon the average of the high and low prices on September 19, 2003, as reported by the American Stock Exchange.
(2) Includes 1,125,000 Class A Common Shares which the underwriters have the option to purchase to cover over-allotments, if any.
(3) Paid in connection with the initial filing of this registration statement on September 25, 2003.

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

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

SUBJECT TO COMPLETION DATED OCTOBER 3, 2003

PRELIMINARY PROSPECTUS

7,500,000 Shares

Hersha Hospitality Trust

Class A Common Shares

We are offering 7,500,000 of our Class A common shares. We will receive all of the net proceeds from the sale of the Class A common shares.

Our Class A common shares are listed on the American Stock Exchange under the symbol HT . The last reported sale price of our Class A common shares on the American Stock Exchange on October 2, 2003 was $9.37 per share.

Investing in our Class A 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 Class A common shares under the heading Risk Factors beginning on page 13.

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

	Per Share	Total

Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase from us up to an additional 1,125,000 Class A 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 underwriters may exercise this option only to cover any over-allotments.

The underwriters are offering the Class A common shares as described under Underwriting. Delivery of the Class A common shares will be made on or about , 2003.

Joint Book-Running Managers

Citigroup **UBS Investment Bank**

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. Neither the delivery of this prospectus nor the sale of Class A common shares means that information contained or incorporated by reference in this prospectus is correct after the date of this prospectus. This prospectus does not constitute an offer to sell or solicitation of an offer to buy these Class A common shares in any circumstance under which the offer or solicitation is unlawful.

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In this prospectus, references to our company, we, and our mean Hersha Hospitality Trust, including, unless the context otherwise requires, 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. Class A 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.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. We encourage you to read carefully the entire prospectus and the other documents that it refers to as incorporated in this prospectus. 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 as exhibits to the registration statement of which this prospectus is a part.

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. Our portfolio currently consists of 21 hotels with a total of 2,018 rooms located in Pennsylvania, New York, Maryland and Georgia, which operate under leading brands, such as Hampton Inn®, Hilton Garden Inn®, Holiday Inn®, Holiday Inn Express®, DoubleTree®, and Comfort Suites®.

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 currently lease six hotels 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.

In April of 2003, we entered into a strategic alliance with CNL Hospitality Partners, L.P., a subsidiary of CNL Hospitality Properties, Inc. CNL is a public company which has been one of the most active investors in lodging properties over the past several years. Since its inception in 1996, CNL has invested over $2.2 billion in hotel properties. The strategic alliance positions us as one of CNL s preferred partners for investing in mid-scale hotels. Our agreement with CNL provides that it will invest up to $25 million in our operating partnership and up to $40 million in a newly formed hotel acquisition joint venture. CNL has currently invested $19 million in our operating partnership and $8 million in the joint venture, which acquired its first hotel, the Hampton Inn Chelsea, New York, New York, on August 29, 2003.

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. The Federal Reserve s August 22, 2003 Beige Book predicts 5.7% and 5.6% nominal GDP growth in the fourth quarter of 2003 and full year 2004, respectively. In addition, as of June 2003, the Americas Hospitality & Leisure Consulting Practice at PricewaterhouseCoopers, L.L.P. predicts 4.0% and 4.2% 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.

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Furthermore, we believe that we will have ample acquisition opportunities in the mid-scale limited service hotel market. First, we believe that many small private owners are competitively disadvantaged by their limited access to market information and capital, and may therefore explore asset dispositions as a means to address their illiquidity. In addition, we believe that larger hotel portfolios will be available for sale as public lodging companies seek to sell non-core assets and improve their overall liquidity. We also believe that improving lodging fundamentals will help facilitate agreement between buyers and sellers on hotel valuations, resulting in an increased volume of sales transactions.

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.

Competitive Strengths

Our Existing Portfolio

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® and Comfort Suites®. Since we acquire primarily newly constructed hotels, the median age of our hotels is only five 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 5.4%, 6.3%, and 2.9% of revenue in maintenance capital expenditures in 2002, 2001 and 2000.

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 108.6% for the twelve months ended June 30, 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% in 2002 compared to the industry average for mid-scale limited service hotels of 33.0% 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.

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 2002, lodging industry RevPAR declined 2.4% while mid-scale without food and beverage RevPAR declined only 0.8%. 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 increased 3.3% in 2002 for our 16 hotels that were open for all of 2001 and 2002.

Growth Platform

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 for all of 2002 yielded a 10.3% unleveraged return based on 2002 net operating income after reserves for furniture, fixtures and equipment, or FF&E, divided by historical purchase price.

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Strategic Relationship with CNL. We have entered into a strategic relationship with CNL, a leading lodging investor which has acquired over $2.2 billion in hotel investments since its inception in 1996. We expect our acquisition program to benefit from access to CNL s established network of owners, developers, brokers and other contacts. We also have additional access to capital through CNL, which enhances our ability to take advantage of acquisition opportunities. Under the terms of our relationship, CNL has committed up to $65 million of capital, which includes unfunded amounts of up to $6 million to our operating partnership and up to $32 million to our hotel acquisition joint venture with CNL.

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.

Experienced Leadership

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.

Substantial Economic Interest. Our management has a substantial economic interest in our company. Upon completion of this offering and the application of the net offering proceeds, our officers and trustees will own limited partnership units in our operating partnership representing approximately 18.1% of our common shares on a fully-diluted basis.

Consistent Dividends

Since our initial public offering in January of 1999, we have made 17 consecutive quarterly distributions to holders of the Class A 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:

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

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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;

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 three 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 $200 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.

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Properties

Existing Properties

Set forth below is tabular information regarding our hotels as of and for the twelve months ended June 30, 2003. Since June 30, 2003, we have also acquired an interest in the Chelsea Hampton Inn in New York City, the Hampton Inn, Linden, New Jersey and the Hilton Garden Inn, Edison, New Jersey, as described below.

	Twelve Months Ended June 30, 2003							
Hotels	**Year Opened**	**Number of Rooms**	**Room Revenue**	**Other Revenue(1)**	**Occupancy**	**Average Daily Rate**	**RevPAR(2)**	**Non-TRS Lease Expiration(3)**
Metropolitan New York								
Doubletree Jamaica, NY	2002	110	$ 2,895,846	$ 476,295	71.1%	$ 101.47	$ 72.13	10/01/07
Holiday Inn Express Long Island City, NY	2001	79	$ 1,952,664	$ 34,147	71.9%	$ 94.21	$ 67.72	11/01/06
Philadelphia								
Mainstay Suites King of Prussia, PA	2000	69	$ 1,221,617	$ 93,792	59.0%	$ 82.24	$ 48.51	06/01/06
Sleep Inn King of Prussia, PA	2000	87	$ 1,111,120	$ 21,768	57.4%	$ 67.10	$ 38.53	01/26/04
Harrisburg/Hershey								
Comfort Inn Harrisburg, PA	1998	81	$ 1,509,689	$ 37,076	67.6%	$ 77.46	$ 52.36	01/26/04
Holiday Inn Express & Suites Harrisburg, PA	1997	77	$ 1,546,552	$ 17,589	67.5%	$ 81.55	$ 55.03	09/01/04
Hampton Inn Hershey, PA	1999	110	$ 2,755,054	$ 59,342	55.1%	$ 124.44	$ 68.62	12/31/05
Holiday Inn Harrisburg, PA	1970	196	$ 3,056,789	$ 2,297,847	57.8%	$ 73.59	$ 42.51	01/26/04
Holiday Inn Express Hershey, PA	1997	85	$ 2,007,905	$ 26,994	60.7%	$ 106.65	$ 64.72	01/26/04
Hampton Inn Carlisle, PA	1997	95	$ 2,022,082	$ 23,564	67.8%	$ 84.25	$ 57.11	01/26/04
Central Pennsylvania								
Hampton Inn Selinsgrove, PA	1996	75	$ 1,799,220	$ 27,349	73.6%	$ 90.54	$ 66.61	01/26/04
Hampton Inn Danville, PA	1998	72	$ 1,488,351	$ 21,015	72.7%	$ 77.94	$ 56.63	09/01/04
Holiday Inn Express New Columbia, PA	1997	81	$ 1,427,049	$ 16,863	61.8%	$ 79.10	$ 48.87	01/26/04
Metropolitan Atlanta								
Comfort Suites Duluth, GA	1996	85	$ 1,127,341	$ 31,097	60.6%	$ 59.95	$ 36.34	(4)
Hampton Inn Peachtree City, GA	1994	61	$ 1,111,918	$ 29,496	73.4%	$ 68.00	$ 49.94	(4)
Hampton Inn Newnan, GA	1996	91	$ 1,366,229	$ 25,625	65.5%	$ 62.82	$ 41.13	(4)
Holiday Inn Express Duluth, GA	1996	68	$ 1,031,186	$ 22,501	61.4%	$ 67.68	$ 41.55	(4)
Mainstay Suites Frederick, MD	2000	72	$ 1,044,116	$ 31,082	62.8%	$ 63.26	$ 39.73	12/31/06
Total		1,594	$ 30,474,728	$ 3,293,442				
Weighted Average					61.3%	$ 79.19	$ 50.82	

(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) HHMLP has waived all of its rights to extend the terms of its 14 leases. We intend to re-lease these hotels to our wholly-owned TRS upon expiration.
(4) Leased to our wholly-owned TRS.

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Recent Acquisitions

In August and September of 2003, we completed the following three additions to our portfolio:

Hampton Inn Chelsea, New York, New York. On August 29, 2003, our joint venture with CNL acquired the newly-constructed, modern 20-story, 144-room Hampton Inn Chelsea for approximately $28.0 million. The hotel is located in the trendy Chelsea district of Manhattan, bordering the West Village and Midtown Manhattan in New York City. The Chelsea Hampton Inn is the first and only Hampton Inn in New York City.

Hampton Inn, Linden, New Jersey. This hotel is located five miles from Newark Liberty International Airport, adjacent to Linden Airport and 25 minutes from New York City. The hotel offers 148 rooms, meeting space, a fitness center and a swimming pool. This hotel is attractive due to its close proximity to the two airports and the number of companies with a local presence, including Merck and other pharmaceutical companies as well as General Motors.

Hilton Garden Inn, Edison, New Jersey. This 132-room hotel is located in Edison, New Jersey, in the Raritan Center Commercial Park and one half mile from the New Jersey Convention and Exhibition Center (approximately 20 minutes from downtown Newark, 25 minutes from Newark Liberty International Airport and 30 minutes from Manhattan). In addition to the New Jersey Convention Center, we expect that guest traffic will be generated by nearby business parks, including the Raritan Center, which is comprised of 108 buildings with over 350 companies in operation.

These two New Jersey hotels were acquired on September 30, 2003 for a total of $30.0 million, which consisted of $7.0 million of cash, $22.0 million of mortgage indebtedness and $1.0 million of seller financing.

Tax Status and Structure

We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement that they currently distribute at least 90% of their taxable income (excluding net capital gains). See Federal Income Tax Consequences of Our Status as REIT.

In order to comply with the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels. Fourteen of our hotels are leased to an independent management company, HHMLP, as required by the REIT qualification rules in effect prior to 2001. The REIT qualification rules were recently modified, allowing a hotel REIT to lease its hotels to a taxable REIT subsidiary, or TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. Accordingly, we have leased six of our hotels to a wholly-owned TRS, which will pay qualifying rent to us, and the TRS has in turn entered into management contracts with HHMLP with respect to those hotels. In addition, the hotel owned by our joint venture with CNL is leased to a TRS that is wholly owned by the joint venture. We intend to eventually lease all our hotels to a TRS, whether upon acquisition of new hotels or upon expiration of the leases for the 14 hotels currently leased to HHMLP. HHMLP has agreed not to exercise its option to extend the current lease term with respect to any of the 14 hotels it currently leases, all of which expire prior to October 2007.

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The following chart shows the structure of our company as of August 31, 2003 on a pro forma basis to give effect to our three recent acquisitions, this offering and the application of the net proceeds as described under Use of Proceeds.

1. We currently have two classes of common shares, Class A shares and Class B shares. Class A common shares are held by our public shareholders and Class B shares may be issued to holders of common limited partnership units of our operating partnership. The Class A shares are entitled to certain priorities with respect to distributions; however, as of January 26, 2004 these priorities will expire and we will only have one class of common shares. Upon consummation of this offering our public shareholders will own 10,078,703 Class A common shares. There are no Class B common shares outstanding.
2. CNL owns 190,266 Series A Convertible Preferred Units in our operating partnership, which are currently exchangeable for 2,816,460 common limited partnership units of our operating partnership or 2,816,460 Class A common shares.
3. Represents the general partner interest in our operating partnership.
4. Upon completion of this offering and the application of the net proceeds therefrom, our officers and trustees will own in the aggregate 2,929,242 common limited partnership units of our operating partnership, which are redeemable for an equal number of Class B common shares. K.D. Patel, one of our trustees, subject to the closing of this offering, has committed to exercise his redemption rights with respect to 501,504 common limited partnership units, the redemption price of which will be funded from the net proceeds of this offering.
5. Upon completion of this offering and the application of the net proceeds therefrom, third party investors in our operating partnership will own 370,481 common limited partnership units, which are redeemable for an equal number of Class B common shares.
6. CNL s interest in our joint venture is exchangeable for 1,192,141 common limited partnership units in our operating partnership or the same number of Class A common shares.
7. The lessee is HHM Leasehold Interests, Inc., a TRS in which HHMLP owns a 99% equity interest and our operating partnership owns a 1% equity interest.

Portfolio Formation Transactions

Acquisitions. Since our initial public offering in 1999, we have acquired a total of 19 hotels, including 13 hotels acquired from entities controlled by our officers or trustees. Of the 13 acquisitions from these entities, 12 were newly-constructed or newly-renovated by these entities prior to our acquisition. Since we do not develop properties, we take advantage of our relationships with these development entities to identify development and renovation projects that may be attractive to us. While these entities bear all the risks of development, we maintain an option to purchase the hotel upon completion. Historically we have purchased hotels from these entities subject to a re-pricing mechanism which adjusts the purchase price based on the operating performance of the hotel in the year or two subsequent to closing. While we intend to continue to acquire hotels from these entities if approved by our independent trustees, future acquisitions from these entities will not be subject to these re-pricing adjustments.

Dispositions. Since our initial public offering in 1999, we have sold a total of eight hotels, including four hotels sold back to entities controlled by our officers or trustees at the same purchase price we acquired the hotels from those entities. All sales to these entities were in situations where we believed an independent buyer would demand seller financing, which we were not willing to provide. We do not intend to sell hotels to such entities in the future.

Lease and Management Agreements with HHMLP. Fourteen of our hotels are leased to HHMLP, and HHMLP manages all of our hotels. We do not operate our own hotels because we are not permitted to do so by the REIT qualification rules. The reason we lease 14 hotels to HHMLP is that the REIT qualification rules in effect prior to 2001 required us to do so. As a result of changes in the REIT qualification rules, we may now lease our hotels to a TRS. Six of our hotels are currently leased to our TRS and we intend to lease all of our hotels to our TRS, including hotels we may acquire in the future and the hotels currently leased to HHMLP as those leases expire. In accordance with the REIT qualification rules, HHMLP or another third party operator will continue to manage our hotels.

Loans and Guarantees. We have loaned money to, borrowed money from, and had our loans guaranteed by our officers, trustees or entities controlled by them. While we intend to make similar hotel development loans in the future to the extent our independent trustees deem appropriate to support our acquisition pipeline, we do not intend to borrow from or have our loans guaranteed by our officers, trustees or entities controlled by them in the future.

See Certain Relationships and Transactions for a more detailed discussion of these transactions.

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THE OFFERING

Class A common shares offered by us in this offering	7,500,000(1)
Class A common shares to be outstanding after this offering	10,078,703(1)(2)
American Stock Exchange Symbol	HT
Use of Proceeds	We expect that the net proceeds from this offering will be approximately $65.2 million after deducting underwriting discounts and commissions and offering expenses payable by us (or approximately $75.1 million if the underwriters exercise the over-allotment option in full). We intend to use the net proceeds from this offering as follows: $24.0 million to reduce our debt, including debt incurred in connection with our recent acquisitions, $15.9 million to fund the redemption of approximately 1.8 million of common limited partnership units in our operating partnership at a price per unit equal to the net offering price in this offering, and the remainder for future acquisitions and for general corporate purposes. See Use of Proceeds.

(1) Does not include up to 1,125,000 Class A common shares that may be issued by us upon exercise of the underwriters over-allotment option.

(2) Does not include:

2,816,460 Class A common shares issuable upon conversion of 190,266 Series A Convertible Preferred Units in our operating partnership currently owned by CNL;

1,192,141 Class A common shares issuable upon exchange of CNL s interest in our joint venture;

5,099,723 Class B common shares issuable upon redemption of outstanding common limited partnership units in our operating partnership which are currently redeemable;

433,333 Class A common shares issuable upon exercise of certain warrants issued in connection with our initial public offering with an exercise price of $9.90 per share (which warrants expire on January 26, 2004); and

500,000 Class B common shares issuable upon exercise of certain options and SARs held by our trustees, officers and employees of HHMLP which are exercisable at a price of $6.00 per share only if our Class A common shares have a closing price in excess of $9.00 per share for twenty consecutive trading days and which expire on January 26, 2004.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables set forth certain summary consolidated historical financial data for Hersha Hospitality Trust and its subsidiaries. The financial data as of and for periods ended December 31, 1999, 2000, 2001 and 2002 are derived from our audited consolidated financial statements audited by Moore Stephens, P.C., our former auditors. We appointed Reznick Fedder & Silverman, CPA s, PC, as our new auditors in April 2003. The summary financial data as of and for the periods ended June 30, 2003 and 2002 are derived from our unaudited consolidated financial statements. In the opinion of management, the unaudited consolidated financial statements include all adjustments necessary to present fairly the data for such periods. You should read this summary consolidated financial data along with our consolidated financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operation included elsewhere in this prospectus. The summary data provided below is not necessarily indicative of future performance, and results for the six-months ended June 30, 2003, are not necessarily indicative of results for the full year.

Statement of Operations Data	Year Ended December 31,				Six Months Ended June 30, (unaudited)	
	1999(1)	2000	2001	2002	2002	2003
	(in thousands, except per share data)					
Revenue:						
Percentage Lease Revenues HHMLP(2)	$ 7,264	$ 9,723	$ 9,558	$ 11,433	$ 5,494	$ 6,336
Percentage Lease Revenues Other(3)		1,850	2,801	2,801	1,400	960
Hotel Operating Revenues						772
Interest	78	50	165	207		
Interest Related Party	28	1	21	7	113	210
Other Revenue					4	4
Total Revenue	7,370	11,624	12,545	14,448	7,011	8,282
Expenses:						
Interest Expense	1,428	4,142	4,769	4,826	2,477	2,457
Hotel Operating Expenses						888
Land Lease Related Party	20	15	13			
Taxes and Property Insurance	450	632	812	1,021	513	542
General and Administrative	363	578	534	567	359	389
Early Payment Penalty		107				
Depreciation and Amortization	2,064	3,507	3,897	3,994	2,076	2,196
Total Expenses	4,325	8,981	10,025	10,408	5,425	6,472
Income Before Distribution to Preferred Unitholders, Minority Interest and Discontinued Operations	3,045	2,643	2,520	4,040	1,586	1,810
Distribution to Preferred Unitholders						(264)
Income Allocated to Minority Interest	(1,707)	(1,908)	(2,342)	(3,238)	(968)	(1,208)
Discontinued Operations:						
Gain on Sale of Discontinued Operations			598	449		
Income from Discontinued Operations		112	58	41		
Net Income	$ 1,338	$ 847	$ 834	$ 1,292	$ 618	$ 338
Basic Earnings Per Common Share(5)	$ 0.59	$ 0.37	$ 0.37	$ 0.51	$ 0.25	$ 0.13

Diluted Earnings Per Common Share(5)	$ 0.48	$ 0.37	$ 0.37	$ 0.51	$ 0.21	
Dividends declared per Common Share	$ 0.67	$ 0.72	$ 0.72	$ 0.72	$ 0.36	$ 0.36

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Balance Sheet Data	Six Months Ended June 30, 2003 (unaudited) Actual	As Adjusted(4)
	(in thousands)	
Cash	$ 513	$ 25,866
Net investment in hotel properties	$ 92,379	$ 122,379
Minority interest in operating partnership	$ 32,858	$ 36,928
Shareholder s equity	$ 10,799	$ 60,108
Total assets	$ 109,195	$ 168,574
Total debt	$ 61,798	$ 67,798

Other Data	Year Ended December 31, 1999(1)	2000	2001	2002	Six Months Ended June 30, (unaudited) 2002	2003
	(in thousands, except share data)					
Same hotels RevPAR(6)(7)	$ 43.97	$ 50.22	$ 49.76	$ 51.51	$ 47.15	$ 48.44
Same hotels average occupancy rate(7)	61.8%	63.6%	64.5%	63.7%	62.3%	63.4%
Funds from operations(8)	$ 5,109	$ 6,647	$ 7,054	$ 8,293	$ 3,662	$ 4,006
EBITDA(9)	$ 6,537	$ 10,677	$ 11,765	$ 13,078	$ 6,139	$ 6,463
Net cash provided by operating activities	$ 3,075	$ 5,032	$ 6,828	$ 7,977	$ 2,620	$ 1,851
Net cash provided by (used in) investing activities	$ (9,149)	$ (14,895)	$ 5,513	$ (145)	$ (3,241)	$ (8,410)
Net cash provided by (used in) financing activities	$ 6,198	$ 9,739	$ (12,174)	$ (7,859)	$ 626	$ 6,932
Weighted average shares outstanding						
Basic	2,275,000	2,275,000	2,275,000	2,519,820	2,462,220	2,578,247
Diluted	6,326,690	6,715,996	7,296,596	7,619,542	7,561,942	8,426,285

(dollars in thousands)

(1) Our company commenced operations on January 26, 1999.
(2) Represents initial fixed rent plus aggregate percentage rent paid by HHMLP to our operating partnership pursuant to percentage leases, which payments are calculated by applying the rent provisions in the respective percentage leases to the historical room revenues.
(3) Represents initial fixed rent paid by a third party lessee to our operating partnership pursuant to percentage leases, which payments are calculated by applying the rent provisions in the respective percentage leases to the historical room revenues.
(4) As adjusted to reflect: (a) the sale of 7.5 million Class A common shares in this offering at an assumed offering price of $9.37 per share, net of underwriting discounts and commissions and offering expenses payable by us; (b) the application of the net proceeds to pay down $24.0 million of indebtedness and to redeem 1.8 million common limited partnership units for an aggregate of $15.9 million; (c) CNL s acquisition of 40,266 additional Series A Preferred Units for $4.0 million and our investment of $4.0 million in our joint venture with CNL, both in connection with our joint venture s acquisition of the Hampton Inn, Chelsea on August 29, 2003; and (d) our acquisition of two New Jersey hotels on September 30, 2003 for a total of $30.0 million, including $7.0 million of cash (drawn from our line of credit), $22.0 million of mortgage indebtedness and $1.0 million of seller financing.

(5) Represents basic and diluted earnings per share computed in accordance with FAS No. 128.
(6) Calculated by dividing total revenue by the number of available rooms for the 13 hotels owned by us for all of the periods shown.
(7) For the 13 hotels owned by us for all of the periods shown.
(8) The National Association of Real Estate Investment Trusts (NAREIT) developed Funds from Operations (FFO) as a relative non-GAAP financial measure of performance and liquidity of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO, as defined under the definition adopted by NAREIT in April 2002 and as presented by us, is net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring or sales of property, plus depreciation and amortization, and

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after adjustments for unconsolidated partnerships and joint ventures. We further adjust FFO for preferred stock distributions. FFO does not represent cash flows from operating activities in accordance with GAAP (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of our performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO a meaningful, additional measure of operating performance because it primarily 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. Comparison of our presentation of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs or the use of other definitions of that term. See Management s Discussion and Analysis of Financial Condition and Results of Operations Funds From Operations.

The following table reconciles FFO to the most directly comparable GAAP measure, net income applicable to common shares:

FFO Reconciliation	Year Ended December 31, 1999	2000	2001	2002	Six Months Ended June 30, 2002	2003
			(in thousands)			
Net income applicable to common shares	$ 1,338	$ 847	$ 834	$ 1,292	$ 618	$ 338
Less: Gain on sale of assets			(598)	(449)		
Add:						
Minority interest	1,707	1,908	2,342	3,238	968	1,208
Distributions to preferred unitholders						264
Depreciation and amortization	2,064	3,892	4,476	4,212	2,076	2,196
Funds from operations	$ 5,109	$ 6,647	$ 7,054	$ 8,293	$ 3,662	$ 4,006

(9) EBITDA represents income before discontinued operations and minority interest plus interest, taxes, depreciation and amortization. EBITDA is presented because we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. However, other companies in our industry may calculate EBITDA differently than we do. EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with GAAP. See the Statements of Cash Flow included in our financial statements.

The following table reconciles EBITDA, which is not a measure under GAAP, to net income for the periods ended as indicated.

EBITDA Reconciliation	Year Ended December 31, 1999	2000	2001	2002	Six Months Ended June 30, 2002	2003
			(in thousands)			
Income before discontinued operations and minority interest	$ 3,045	$ 2,643	$ 2,520	$ 4,040	$ 1,586	$ 1,810
Income tax benefit (expense)						
Interest and financing expense	1,428	4,142	4,769	4,826	2,477	2,457
Depreciation and amortization	2,064	3,892	4,476	4,212	2,076	2,196
EBITDA	$ 6,537	$ 10,677	$ 11,765	$ 13,078	$ 6,139	$ 6,463

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RISK FACTORS

An investment in our Class A common shares involves significant risks, including the risk of losing your entire investment. In evaluating our business, prospective investors should carefully consider the following risk factors in addition to the other information contained in this prospectus.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

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 expect to use the net proceeds from this offering to acquire a substantial number of hotels. If we are successful in making these acquisitions, 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 integrate these investments into our portfolio and manage any future acquisitions of additional assets without operating disruptions or unanticipated costs. Acquisition of hotels would generate additional operating expenses that we would 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.

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

We seek to acquire a substantial number of new hotels, including hotels that may be acquired with the net proceeds of this offering. Many of our acquisitions are likely to be 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 typically 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.

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 this offering 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. Because we must distribute at least 90% of our taxable income 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 own a limited number of hotels and significant adverse changes at one may impact our lessees ability to pay rent and our ability to make distributions to shareholders.

We own only 21 hotels. Significant adverse changes in the operations of any one hotel could have a material adverse effect on our lessees ability to make rent payments and, accordingly, on our ability to make expected distributions to our shareholders.

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

We intend to 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 our lease revenues and 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.

Many of our hotels are located in Pennsylvania, which may increase the effect of any local economic conditions.

Eleven of our 21 hotels are located in Pennsylvania. Some of our other hotels are clustered in metropolitan areas, such as Atlanta. As a result, localized adverse events or conditions, such as an economic recession around these hotels, could have a significant adverse effect on our operations, and ultimately on the amounts available for distribution to shareholders.

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

At June 30, 2003, we had debt outstanding of $61.8 million. We may borrow additional amounts from the same or other lenders in the future, or may issue corporate debt securities in public or private offerings. Some of these additional borrowings may be secured by our hotels. 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. However 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. 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, our cash flow may not be sufficient to repay all maturing debt in years when significant balloon payments come due.

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 operate any of our hotels. Instead, we must lease our hotels. Fourteen of our hotels are leased to an independent management company, HHMLP, as required by the REIT qualification rules in effect prior to 2001. In addition, six other hotels are managed by HHMLP under management agreements with our wholly-owned TRS who leases those hotels from us. HHMLP makes and implements strategic business decisions with respect to our hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by HHMLP or any other hotel operator to whom we may lease our hotels may not be in the best interests of a particular hotel or of our company. Accordingly, we cannot assure you that our lessees or HHMLP will operate our hotels in a manner that is in our best interests.

Dependence on our lessees for rent may impact distributions to shareholders.

We rely on our lessees to make rent payments in order to make distributions to shareholders. Obligations under the percentage leases, including the obligation to make rent payments, are unsecured. HHMLP, the lessee of 14 of our hotels, incurred a net loss of $671,000 for the year ended December 31, 2002, a net loss of $1,104,000 for the year ended December 31, 2001, and a net loss of $147,000 for the year ended December 31, 2000, and HHMLP had a partners deficit of $3,351,000 as of June 30, 2003. Reductions in revenues from our hotels or in the net operating income of our lessees may adversely affect the ability of our lessees to make these rent payments and thus our ability to make anticipated distributions to our shareholders.

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We depend on key personnel.

We depend on the services of our existing senior management 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 do not have employment contracts with any of our senior management and they may cease to provide services to us at any time. 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 face increasing 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 mid-scale 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.

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 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, percentage leases, the Administrative Services Agreement between us and HHMLP pursuant to which HHMLP provides certain administrative services, the Option Agreement between the operating partnership and some of the 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 other entities may result in decisions that do not reflect our best interests.

The following officers and trustees own collectively approximately 81% of HHMLP: Hasu P. Shah, Jay H. Shah, Neil H. Shah, David L. Desfor and Kiran P. Patel. The following officers and trustees serve as officers of HHMLP: David L. Desfor, Kiran P. Patel and K.D. Patel. Conflicts of interest may arise in respect of the ongoing leasing, acquisition, disposition and operation of our hotels including, but not limited to, the percentage leases and enforcement of the contribution and purchase agreements, the Administrative Services Agreement, the Option Agreement and our property management agreements with HHMLP. Consequently, the interests of shareholders may not be fully represented in all decisions made or actions taken by our officers and trustees.

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

Some of our 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 the 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 of our 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.

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

Some of our 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 trustees devote to our affairs. Some of our 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 trustees.

The bankruptcy of an affiliated guarantor of the indebtedness relating to some of our hotels could trigger a default under our loan documents.

Mr. Hasu P. Shah, Chairman of our Board of Trustees and CEO, guarantees the indebtedness of four of our hotels. Mr. Shah s bankruptcy would constitute a default under the related loan documents, and such default would cause some or all of the assumed indebtedness to become immediately due and payable. In the event that the lender accelerates the payment, such acceleration could adversely affect our cash available for distribution. If we are unable to make such payment, we may be forced to sell the hotels that serve as collateral for the indebtedness in order to make such payment. In addition, if the hotels that serve as collateral for the guarantees by Mr. Hasu Shah experience financial difficulty, we may be more likely to invest in those hotels with income from other hotels so that Mr. Shah will not be required to fund his guarantees.

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. Upon completion of this offering, some of our officers and trustees will own an approximately 18.1% 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 will be approved.

RISKS RELATING TO OUR CORPORATE STRUCTURE

A major shareholder has significant influence over our affairs.

CNL, through its ownership of Series A Preferred Units of our limited partnership, upon completion of this offering and the application of the net proceeds thereof, will own approximately 17.4% of our common shares on a fully-diluted basis. In addition, CNL would be able to acquire an additional 5.7% of our common shares on a fully-diluted basis upon exchange of its interest in our joint venture. CNL may also purchase additional Series A Preferred Units and joint venture interests. Pursuant to the terms of the Series A Convertible Preferred Units owned by CNL, and the Series A Preferred Shares into which they are exchangeable, it has a number of special rights, including, but not limited to:

- certain preemptive rights with respect to any issuance by us prior to April 2006 of Class A common shares;

certain rights to elect members of our Board of Trustees; and

certain approval rights including with respect to:

- mergers;
- the sale of all or substantially all of our assets;
- the issuance of equity securities;

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- the payment of dividends while in arrears with respect to dividends relating to CNL s securities;
- certain amendments to our Declaration of Trust;
- filing for bankruptcy; and
- terminating our REIT status.

In addition, for so long as the holders of the Series A Convertible Preferred Units hold in the aggregate that number of Series A Convertible Preferred Units, Class A common shares and any other class of our equity that represent on an as-converted or as-exchanged basis at least five percent of the issued and outstanding Class A common shares on a fully diluted basis, a majority of the Series A Convertible Preferred Units must approve a sale of all or substantially all of the assets of the operating partnership or a merger or consolidation of the operating partnership. CNL therefore holds veto power over such extraordinary transactions, which could result in the disapproval of a transaction that would be beneficial to our shareholders.

In addition, pursuant to the terms of our joint venture with CNL, until April 21, 2004, we must present all of our proposed acquisitions to the investment committee of the joint venture, and we may only acquire such acquisition directly if the investment committee or CNL fails to approve that acquisition for the joint venture. This arrangement may make it more difficult for us to acquire suitable hotels other than through the joint venture.

As a result of its ownership of our securities and the rights described above, CNL may have significant influence over our affairs. This could potentially be disadvantageous to other shareholders interests, which may not be aligned with the interests of CNL. For a more detailed description of CNL s rights, see the sections entitled CNL Strategic Alliance.

Our ownership limitation may restrict business combination opportunities.

To qualify as a REIT under the Code, no more than 50% of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals during the last half of each taxable year. To preserve our REIT qualification, our Declaration of Trust generally prohibits direct or indirect ownership of more than 9.9% of the number of outstanding shares of any class of our securities, including the Class A common shares, by any person. Generally, Class A common shares owned by affiliated owners will be aggregated for purposes of the ownership limitation. The ownership limitation could have the effect of delaying, deferring or preventing a change in control or other transaction in which holders of Class A common shares might receive a premium for their Class A common shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests.

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 the first and second classes expire in 2004 and 2005, respectively. 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, defer 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 real estate investment trusts, certain business combinations (including certain issuances of equity securities) between a Maryland real estate investment trust and any person who beneficially owns ten percent or more of the voting power of the trust s shares or an affiliate thereof or any person who is an affiliate or associate of the trust and was the beneficial owner of ten percent or more of the voting shares of the trust within the two year period immediately prior to the date in question, are prohibited for five years after the most recent date on which this shareholder

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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, defer or prevent a transaction or change of control of our company in which our shareholders might otherwise receive a premium for their shares above then-current market prices or might otherwise deem to be in their best interests. CNL and some of our trustees and officers may control a sufficient percentage of the voting power to block a proposal respecting a business combination under these provisions. As part of the transaction with CNL, we exempted CNL from the application of these provisions, which could make us more vulnerable to an unsolicited acquisition attempt by CNL that would not be advantageous for all shareholders.

The Board of Trustees may change our investment and operational policies without a vote of the Class A 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 Class A common shares.

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 that we have the authority to issue,
- cause us to issue additional authorized but unissued Class A common shares, Class B common shares or preferred shares and
- 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 Class A common shares or preferred shares that have preference rights over the Class A common shares with respect to dividends, liquidation, voting and other matters.

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

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.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. 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. If we were to fail to qualify as a REIT in any taxable year, 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. Unless entitled to relief under certain 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

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manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause the trustees, with the consent of holders of two-thirds of the outstanding shares, to revoke the REIT election.

Failure to make required distributions would subject us to tax.

In order to qualify as a REIT, each year we must distribute to our shareholders at least 90% of our taxable income, other than any net capital gain. To the extent that we satisfy the 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 distributions in any year are less than the sum of:

- 85% of our ordinary income for that year;
- 95% of our capital gain net income for that year; and
- 100% of our undistributed taxable income from prior years.

We have paid out, and intend to continue to pay out, our income to our shareholders in a manner intended to satisfy the 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.

Recent changes in taxation of corporate dividends may adversely affect the value of our Class A common shares.

The Jobs and Growth Tax Relief Reconciliation Act of 2003, which was enacted into law on May 28, 2003, among other things, generally reduces to 15% the maximum marginal rate of tax payable by domestic noncorporate taxpayers on dividends received from a regular C corporation. This reduced tax rate, however, will not apply to dividends paid to domestic noncorporate taxpayers by a REIT on its stock, except for certain limited amounts. Although the earnings of a REIT that are distributed to its shareholders still generally will be subject to less federal income taxation than earnings of a non-REIT C corporation that are distributed to its shareholders net of corporate-level income tax, this legislation could cause domestic noncorporate investors to view the stock of regular C corporations as more attractive relative to the stock of a REIT than was the case prior to the enactment of the legislation, because the dividends from regular C corporations will generally be taxed at a lower rate while dividends from REITs will generally be taxed at the same rate as the individual s other ordinary income. We cannot predict what effect, if any, the enactment of this legislation may have on the value of the stock of REITs in general or on our Class A common shares in particular, either in terms of price or relative to other investments.

RISKS RELATED TO THE HOTEL INDUSTRY

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 ability of our lessees to operate the hotels in a manner sufficient to maintain or increase revenues in excess of operating expenses to enable our lessees to make rent payments. 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 recent 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 Class A common shares.

Our hotels are subject to general hotel industry operating risks, which may impact our lessees ability to make rent payments and on 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; 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 the lessees ability to make rent payments, and therefore, our ability to make distributions to our shareholders.

Competition for guests 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. If their marketing strategies are effective, our lessees may be unable to make rent payments and we may be unable to make distributions to our shareholders.

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

Our current business strategy is to own and acquire hotels primarily in the mid-scale segment of the hotel industry. 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 rent under the percentage leases and 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.

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. We believe that we will be able to make distributions necessary to maintain REIT status through cash flow from operations; but if we are unable to do so, we may not be able to make the necessary distributions or we may have to generate cash by a sale of assets, increasing indebtedness or sales of securities to make the distributions.

Risks of operating hotels under franchise licenses, which may be terminated or not renewed, may impact our lessees ability to make rent payments and 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 of our partnership or our lessees 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

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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, our partnership and our lessees 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. Although the percentage leases require our lessees to maintain the franchise licenses for each hotel, our lessees 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.

Operating costs and capital expenditures for hotel renovation may be greater than anticipated and may adversely impact rent payments by our lessees and our ability to make 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 leases and management agreements with HHMLP, 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.

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.

Each lease specifies 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. Leases for hotels subsequently acquired by us will contain similar provisions. 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.

REITs are 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 which has 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.

RISK RELATED TO THIS OFFERING

Investors in this offering will experience immediate and significant dilution in the book value per share.

The public offering price of our Class A common shares is substantially higher than what our net tangible book value per share will be immediately after this offering. Purchasers of our Class A common shares in this offering will incur immediate dilution of approximately $3.41 in net tangible book value per share of Class A common shares from the price payable for our Class A common shares in this offering.

The priority and preferences benefiting the holders of Class A common shares will expire no later than January 26, 2004.

The Class A common shares enjoy the benefit of a priority period during which, subject to the prior rights of the holders of Series A Convertible Preferred Units, the holders of the Class A common shares are entitled to receive, prior to any distributions either to the holders of common limited partnership units or to the holders of the Class B common shares, if any, cumulative dividends in an amount per Class A common share equal to $0.18 per quarter. The priority period expires on the earlier of (i) January 26, 2004 and (ii) an election by us to end the priority period within 15 days if the share price remains over $7.00 per share for these 15 days. Although our share price has remained over $7.00 for more than 15 days, we do not intend to elect to terminate the priority period. As a result, the priority period will terminate on January 26, 2004. After the expiration of the priority period, distributions will be made, subject to preference of the Series A Convertible Preferred Units owned by CNL, to holders of the Class A common shares and common limited partnership units in our operating partnership on a pro rata basis. After the termination of the priority period, a significant downturn in our financial results will have a greater chance of impacting the distributions made with respect to the Class A common shares.

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We may be unable to invest the excess net proceeds raised in this offering on acceptable terms or at all, which would harm our financial condition and operating results.

The portion of the net proceeds of this offering not used to fund our proposed acquisitions, repay indebtedness or to redeem limited partnership units in our operating partnership, which will be approximately $25.4 million, will be available for future investments in hotel assets. Until we identify hotel investments consistent with our investment criteria, we intend to invest that portion of the net offering proceeds in money market funds. We cannot assure you that we will be able to identify hotel investments that meet our investment criteria, that we will be successful in completing any investment we identify or that any investment we complete using the net proceeds of this offering will produce a return on our investment. Moreover, because we will not have identified these future investments at the time of our offering, we will have broad authority to invest the excess net proceeds of this offering in any hotel investments that we may identify in the future.

In addition, pursuant to the terms of our joint venture with CNL, until April 21, 2004, we must present all of our proposed acquisitions to the investment committee of the joint venture, and we may only acquire such acquisition directly if the investment committee or CNL fails to approve that acquisition for the joint venture. This arrangement may make it more difficult for us to acquire suitable hotels other than through the joint venture.

We cannot assure you that an active public market for our Class A common shares will develop.

The number of Class A common shares proposed to be sold in this offering is more than twice times the number of currently outstanding shares. Prior to this offering, there has been limited trading volume for our Class A common shares, and we cannot assure you that an active trading market for the shares of Class A common shares will develop as a result of this offering or, if developed, that any such market will be sustained. In the absence of an active public trading market, an investor may be unable to liquidate an investment in our Class A common shares at the price or in the time period desired. We cannot assure you that the price at which the shares of Class A common shares will sell in the public market after the closing of this offering will not be lower than the price at which they are sold by the underwriters.

Adjustments to the purchase price to our hotels may lead to substantial shareholder dilution.

Five of the hotels currently owned by us were purchased pursuant to agreements that provide for post-closing purchase price adjustments based on the hotel s performance in relation to the purchase price. In the event that any of the purchase prices of these hotels are increased on an adjustment date and the purchase price adjustment is paid in common limited partnership units, owners of the Class A common shares at such time will experience dilution.

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

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred or common shares. Upon liquidation, holders of our debt securities and shares of 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 Class A 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 stock holdings in us.

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Possible adverse effect of shares available for future sale on price of Class A common shares.

At any time, CNL may elect to exchange its Series A Convertible Preferred Units for up to 2,816,460 Class A common shares and exchange its interest in their joint venture with us for up to 1,192,141 additional Class A common shares. To the extent CNL funds additional capital to us or our joint venture, the number of Class A common shares issuable upon such exchange will increase. Furthermore, as of August 31, 2003, there are 5,099,723 outstanding limited partnership units in our operating partnership (other than the Series A Convertible Preferred Units) which currently are redeemable for Class B common shares (or 3,299,723 units upon completion of this offering and the application of the net proceeds thereof). Upon the exchange of the Series A Convertible Preferred Units or the redemption of common limited partnership units, the Class B common shares or Class A common shares received therefor may be sold in the public market pursuant to shelf registration statements that we are obligated to file on behalf of CNL and the limited partners of our operating partnership, or pursuant to any available exemptions from registration. Sales of a substantial number of Class A common shares or Class B common shares, or the perception that such sales could occur, could adversely affect prevailing market prices of the Class A common shares. Holders of these shares and units have entered into lock up agreements in connection with this offering that prevent them from selling these shares until 120 days from the date of this prospectus.

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 prospectus. 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. In addition, some of our distributions may include a return of capital.

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 Class A 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 Class A common shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our Class A common shares could decrease because potential investors may require a higher dividend yield on our Class A 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.

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FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled Prospectus Summary, Risk factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business and Properties contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond our control, that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, bel estimates, predicts, potential, continue, our future success depends, seek to continue or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. Important factors that could cause actual results to differ materially from those in our forward looking statements in this prospectus include, but are not limited to, the factors discussed in the section entitled Risk Factors and the filings made by us with the SEC that are incorporated in this prospectus. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the 7,500,000 Class A common shares offered hereby will be approximately $65.2 million, after deducting underwriting discounts and commissions and the estimated expenses of this offering payable by us. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately $75.1 million.

As required by the partnership agreement of our operating partnership, we will contribute all of the net proceeds to our operating partnership in exchange for additional partnership interests. We intend to use the net proceeds of this offering, subject to maintaining our REIT qualification, as follows: $24.0 million to reduce indebtedness, including debt incurred in connection with our recent acquisitions, $15.9 million to redeem 1.8 million common limited partnership units in our operating partnership at a price per unit equal to the net offering price in this offering, and the remainder to fund future acquisitions and for other general corporate purposes.

The terms of the indebtedness we will repay with the net proceeds of this offering are as follows:

Facility	Total Amount	Amount Repaid	Interest Rate	Maturity
Sovereign Bank Credit Line	$ 11.0 million	$ 11.0 million	4.00%	1/1/04
Waypoint Bank	$ 5.5 million	$ 5.5 million	4.25%	1/1/08
Shreenathji Enterprises, Ltd.	$ 1.0 million	$ 1.0 million	6.00%	Demand Note
Royal Bank of Pennsylvania	$ 6.5 million	$ 6.5 million	8.86%	6/1/04
Total	$ 24.0 million	$ 24.0 million		

Shreenathji Enterprises is owned in part by Hasu P. Shah, Jay H. Shah, Kiran P. Patel and K.D. Patel, who will receive the proceeds of this repayment.

The common limited partnership units in our operating partnership to be redeemed are owned by the following individuals (or family limited partnerships controlled by them):

Owner	Number of Units
Bharat Mehta	671,050
K.D. Patel (Trustee)	501,504
Nayana Gandhi	389,281
Madhu Patni	145,760
Manhar Gandhi	51,434
Manish Patni	40,971

Total	1,800,000

The amount and timing of our use of the net proceeds of this offering will depend on a number of factors, including the success of locating suitable acquisition properties and the amount of cash we generate from operations. As a result, we will retain broad discretion in the allocation of the net proceeds from this offering. Pending the use of proceeds referenced above, the net proceeds will be invested in interest-bearing, short-term investment grade securities or money market accounts, which are consistent with our intention to qualify as a REIT. Such investments may include, for example, government and government agency securities, certificates of deposit, interest-bearing bank deposits and mortgage loan participations.

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CAPITALIZATION

The following table sets forth the capitalization of Hersha Hospitality Trust as of June 30, 2003:

(1) on an actual basis;

(2) on a pro forma basis to give effect to:

- CNL s acquisition of 40,266 additional Series A Preferred Units for $4.0 million and our investment of $4.0 million in our joint venture with CNL, both in connection with our joint venture s acquisition of the Hampton Inn, Chelsea on August 29, 2003: and

- our acquisition of two New Jersey hotels on September 30, 2003 for a total of $30.0 million, including $7.0 million of cash (drawn from our line of credit), $22.0 million of mortgage indebtedness and $1.0 million of seller financing; and

(3) on a pro forma, as adjusted basis to give effect to the transactions described under (2) above and:

- the sale of 7.5 million Class A common shares in this offering at an assumed offering price of $9.37 per share, net of underwriting discounts and commissions and offering expenses payable by us; and

- the use of the net proceeds of this offering to pay down $24.0 million of indebtedness and to redeem 1.8 million limited partnership units for an aggregate price of $15.9 million.

This table should be read in conjunction with the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes included elsewhere in this prospectus.

	As of June 30, 2003		
	Actual	**Pro Forma**	**Pro forma As adjusted**
		(dollars in thousands)	
Cash	$ 513	$ 513	$ 25,866
Debt:			
Lines of credit	$ 4,431	$ 11,431	$
Mortgages payable	57,367	79,367	66,798
Other notes payable		1,000	1,000
Total debt	61,798	91,798	67,798

Minority interest(1)	32,858	36,884	36,928
Shareholders equity(2):			
Preferred shares, $0.01 par value, 10,000,000 shares authorized, including 350,000 Series A Preferred Shares, no shares issued and outstanding			
Class A common shares, $0.01 par value, 50,000,000 shares authorized, 2,578,703 shares issued and outstanding, 10,078,703 shares issued and outstanding, as adjusted	26	26	101
Class B common shares, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding			
Additional paid-in capital(1)	13,691	13,691	62,925
Distributions in excess	(2,918)	(2,918)	(2,918)
Total shareholders equity	10,799	10,799	60,108
Total capitalization	$ 105,455	$ 139,481	$ 164,834

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(1) Includes a $15,898,000 adjustment to increase minority interest and decrease additional paid-in capital, which results from the accounting treatment for the contribution of the net proceeds of this offering to our operating partnership.

(2) Does not include:

- 2,816,460 Class A common shares issuable upon conversion of 190,266 Series A Convertible Preferred Units in our operating partnership currently owned by CNL;
- 1,192,141 Class A common shares issuable upon exchange of CNL s interest in our joint venture;
- 5,099,723 Class B common shares issuable upon redemption of outstanding common limited partnership units in our operating partnership which are currently redeemable;
- 433,333 Class A common shares issuable upon exercise of certain warrants issued in connection with our initial public offering with an exercise price of $9.90 per share (which warrants expire on January 26, 2004); and
- 500,000 Class B common shares issuable upon exercise of certain options and SARs held by our trustees, officers and employees of HHMLP which are exercisable at a price of $6.00 per share only if our Class A common shares have a closing price in excess of $9.00 per share for twenty consecutive trading days, and which expire on January 26, 2004.

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DISTRIBUTIONS AND PRICE RANGE OF CLASS A COMMON SHARES

Since our initial public offering in January of 1999, we have made 17 consecutive quarterly distributions to holders of the Class A common shares of $0.18 per share, which annualizes to $0.72 per share. We have also paid an equivalent distribution to holders of our 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 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 Code 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 the hotels. We rely on our lessees to generate sufficient cash flow from the operation of the hotels to meet their rent obligations under the percentage leases.

The Class A common shares enjoy the benefit of a priority period during which, subject to the prior rights of the holders of Series A Convertible Preferred Units, the holders of the Class A common shares are entitled to receive, prior to any distributions either to the holders of common limited partnership units or to the holders of the Class B common shares if any, cumulative dividends in an amount per Class A common share equal to $0.18 per quarter. The priority period expires on the earlier of (i) January 26, 2004 and (ii) an election by us to end the priority period within 15 days if the share price remains over $7.00 per share for these 15 days. After the holders of the common limited partnership units and the Class B common shares have received an amount per unit or per share equal to this distribution, the holders of the Class A common shares and the holders of the common limited partnership units and the Class B common shares, if any, are entitled to receive further distributions on a pro rata basis. As of the date of this prospectus, no Class B common shares are outstanding. Thus, the Class A common shares have priority rights only with respect to the outstanding common limited partnership units other than the Series A Convertible Preferred Units issued to CNL as described below. In the future, we may issue additional Class A common shares, securities senior to the Class A common shares and the partnership may issue units that are not subordinated to the Class A common shares.

The Series A Convertible Preferred Units rank senior to all common limited partnership units in our operating partnership, including our general partner units, and all Class A or Class B common shares. Distributions on the Series A Convertible Preferred Units accrue at a rate of 10.5% of the original issue price. Because we derive our revenue from distributions from our operating partnership, the distribution rights of the Class A common shares and the Class B common shares are effectively subordinate to the distribution rights of the Series A Convertible Preferred Units. See CNL Strategic Alliance.

The hotel business is seasonal in nature and, therefore, revenues from the hotels in the first and fourth quarters are traditionally lower than those in the second and third quarters and our lease revenue may be lower in these quarters. We expect to use excess cash flow from the second and third quarters to fund distribution shortfalls in the first and fourth quarters. We cannot assure you that we will be able to continue to make quarterly distributions at the current rate.

Our Class A common shares trade on the American Stock Exchange under the symbol HT. As of August 31, 2003, there were 2,578,703 Class A common shares outstanding held by approximately 250 persons of record and 1,500 beneficial owners. The following table sets forth the high and low sale prices of our Class A common shares as reported by the American Stock Exchange and dividends declared on our Class A common shares for each of the quarters indicated.

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	Price Range		Cash Dividend
	High	Low	Per Share
Year ended December 31, 2003			
Fourth quarter (through October 2, 2003)	$ 9.50	$ 9.01	
Third quarter	$ 9.10	$ 7.93	$ 0.18(1)
Second quarter	$ 8.25	$ 6.54	$ 0.18
First quarter	$ 7.30	$ 6.31	$ 0.18
	High	**Low**	**Per Share**
Year ended December 31, 2002			
Fourth quarter	$ 6.99	$ 5.40	$ 0.18
Third quarter	$ 6.55	$ 5.75	$ 0.18
Second quarter	$ 6.70	$ 6.00	$ 0.18
First quarter	$ 6.70	$ 5.51	$ 0.18
	High	**Low**	**Per Share**
Year ended December 31, 2001			
Fourth quarter	$ 6.25	$ 5.10	$ 0.18
Third quarter	$ 6.90	$ 4.25	$ 0.18
Second quarter	$ 6.09	$ 4.80	$ 0.18
First quarter	$ 6.13	$ 5.50	$ 0.18

(1) Payable on October 23, 2003 to shareholders of record on September 26, 2003.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated historical financial data for Hersha Hospitality Trust and its subsidiaries and Hersha Hospitality Management, L.P. and its subsidiaries. The financial data as of and for periods ended December 31, 1999, 2000, 2001 and 2002 are derived from our audited consolidated financial statements and those of HHMLP audited by Moore Stephens, P.C., our former auditors. We appointed Reznick Fedder & Silverman, CPA s, PC, as our new auditors in April of 2003. The selected financial data as of and for the periods ended June 30, 2003 and 2002 are derived from our unaudited consolidated financial statements and those of HHMLP. In the opinion of management, the unaudited consolidated financial statements include all adjustments necessary to present fairly the data for such periods. You should read this selected consolidated financial data along with our consolidated financial statements and those of HHMLP and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operation included elsewhere in this prospectus. The selected data provided below is not necessarily indicative of future performance, and results for the six-months ended June 30, 2003, are not necessarily indicative of results for the full year.

Hersha Hospitality Trust

	Year Ended December 31,				Six Months Ended June 30, (unaudited)	
Statement of Operations Data	**1999(1)**	**2000**	**2001**	**2002**	**2002**	**2003**
	(in thousands, except per share data)					
Revenue:						
Percentage Lease Revenues HHMLP (2)	$ 7,264	$ 9,723	$ 9,558	$ 11,433	$ 5,494	$ 6,336
Percentage Lease Revenues Other (3)		1,850	2,801	2,801	1,400	960
Hotel Operating Revenues						772
Interest	78	50	165	207		
Interest Related Party	28	1	21	7	113	210
Other Revenue					4	4
Total Revenue	7,370	11,624	12,545	14,448	7,011	8,282
Expenses:						
Interest Expense	1,428	4,142	4,769	4,826	2,477	2,457
Hotel Operating Expenses						888
Land Lease Related Party	20	15	13			
Taxes and Property Insurance	450	632	812	1,021	513	542
General and Administrative	363	578	534	567	359	389
Early Payment Penalty		107				
Depreciation and Amortization	2,064	3,507	3,897	3,994	2,076	2,196
Total Expenses	4,325	8,981	10,025	10,408	5,425	6,472
Income Before Distribution to Preferred Unitholders, Minority Interest and Discontinued Operations	3,045	2,643	2,520	4,040	1,586	1,810
Distribution to Preferred Unitholders						(264)
Income Allocated to Minority Interest	(1,707)	(1,908)	(2,342)	(3,238)	(968)	(1,208)
Discontinued Operations:						
Gain on Sale of Discontinued Operations			598	449		
Income from Discontinued Operations		112	58	41		

Net Income	$ 1,338	$ 847	$ 834	$ 1,292	$ 618	$ 338
Basic Earnings Per Common Share (4)	$ 0.59	$ 0.37	$ 0.37	$ 0.51	$ 0.25	$ 0.13
Diluted Earnings Per Common Share (4)	$ 0.48	$ 0.37	$ 0.37	$ 0.51	$ 0.21	