

FelCor Lodging Trust (FCH): Hotel REIT with 60% Upside to NAV



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I. Introduction

- **Firm Background**

- › SEC-registered investment advisor founded in 2008 and located in Stamford, CT
- › Invests in the publicly traded shares of global REITs and real estate related companies

- **Investment Strategy**

- › Long-term investment horizon
- › Invest primarily in companies with discounted valuations and high growth that is likely to come in above expectations; In addition, invest in select value opportunities with catalysts for change
- › Own a concentrated portfolio based on extensive fundamental research
- › Aim to maintain and nurture constructive relationships with portfolio companies

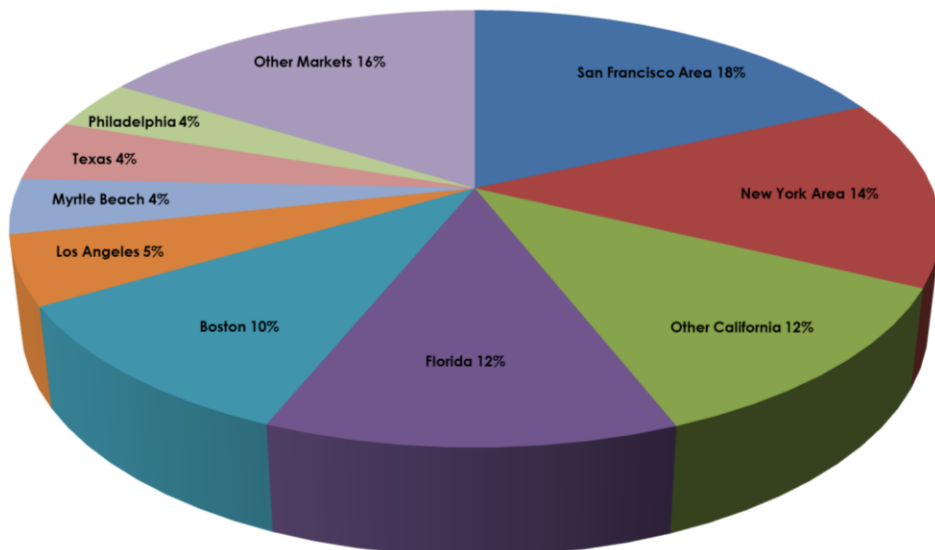
- **Investment Team**

- › **Jonathan Litt** is the Founder and CIO of Land and Buildings. Prior to Land and Buildings, Jonathan Litt was Managing Director and Senior Global Real Estate Strategist at Citigroup where he was responsible for Global Property Investment Strategy from 2000 to March 2008. Jonathan Litt led the #1 Institutional Investor All American Real Estate Research Team for 8 years and was top ranked for 13 years while at Citigroup, PaineWebber and Salomon Brothers. Columbia BA, NYU MBA.
- › **Craig Melcher**, Co-Founder and Principal at Land and Buildings, was a key member of the top-ranked Citigroup REIT research team and has worked together with Jonathan Litt for 13 years. Wharton BS, NYU MBA.
- › **Corey Lorinsky** is Senior Analyst and Principal at Land and Buildings. Wharton BS.

- **FelCor Lodging Trust (NYSE: FCH):** Owner of a diversified portfolio of primarily upper-upscale and luxury hotels that are located in markets throughout the United States

FCH Stock Information

Last Price	\$6.55
52-Week Range	\$5.47 - 12.43
Market Cap	\$935M
Dividend/Yield	\$0.24 / 3.7%
Enterprise Value	\$2.7B



Knickerbocker Hotel, Times Square, New York City



Net Asset Value ¹	\$10.50/share
Current Price	\$6.55/share
Upside to NAV	60%
Implied Cap Rate	8.7%



The Fairmont Copley Plaza, Boston

• The FCH Opportunity

› Significant upside to net asset value

- L&B estimates FCH has **60%** upside to the net asset value of its hotels
- \$10.50 NAV reflects current capital market and economic conditions
- FCH has posted sector-worst total shareholder returns over the trailing 10 years, including declining ~50% from its 2015 high

› Fundamentals are poised to surpass peers and industry expectations

- FCH is expected to achieve hotel RevPAR growth of ~8% in 2015, ahead of peers and the industry, and is likely to outperform again in 2016
- We believe outperformance in 2016 should be driven by suburban, airport and resort locations insulated from elevated supply growth in gateway markets, Airbnb and foreign tourism

• Numerous strategic options available to improve growth, portfolio positioning, net asset value and balance sheet metrics

• L&B Strategic Plan to close discount to NAV

- › **Sell New York City hotels:** New York City hotels (~15% of asset value; \$470M) can be sold at multiples well in excess of the Company's current EBITDA multiple, allowing FCH to accretively pay down debt and buy back stock
- › **Sell bottom ~10% of portfolio:** We believe the bottom ~10% of the portfolio (\$375M) can be sold for cap rates close to 9-10%
- › **Buy back stock:** Repurchasing \$200M of stock with asset sale proceeds at \$7 would raise the NAV 8% to \$11.40
- › **Pay down debt:** Reducing net debt by more than half with asset sale proceeds and retained cash flow is likely to lead to a higher valuation, as net debt/EBITDA is reduced to under 3x, better than peers, and with no significant debt maturities until 2019/2022
- › **Enhance corporate governance:** Board should be de-staggered immediately and refreshed with new directors
- › **Explore strategic alternatives:** Large, liquid market to sell the portfolio in whole or part; US hotel transactions in 2016 are forecasted to be \$36 billion



Renaissance Indian Wells Resort & Spa



The Vinoy Renaissance St. Petersburg Resort & Golf Club

• FelCor needs a change in strategic direction

› Long-term shareholder returns have underperformed peers by a wide margin

– FCH has generated a negative total return of **-46%** over the trailing 10 years¹, the worst in the lodging REIT sector, while peers² returned **25%** on average

› Poor capital allocation history

– The Company more than doubled its share count through dilutive equity issuances since 2010 and earned the worst score on Green Street Advisors' Management Value Added index amongst all covered lodging REITs³

› Poor balance sheet management

– FelCor nearly went bankrupt in the financial crisis and did not address debt levels as urgently as many peers in the years since, therefore net debt/EBITDA remains above peers today

› Corporate governance inadequate

– The Board is over-tenured with the majority of the current Board composed of the same directors who oversaw FCH's strategy as it headed towards potential insolvency; Corporate governance changes have been slow to materialize, even under shareholder pressure

FCH Stock is Down ~50% From 2015 High



II. Valuation

- **60% upside to \$10.50 net asset value**

- › Asset by asset due diligence and valuation conducted in conjunction with a leading commercial real estate broker/appraiser, industry executives and private market participants
- › \$10.50 NAV reflects current capital market and economic conditions and RevPAR growth of 3 – 4% in 2016 for FelCor
- › Implied cap rate at current share price of **8.7%** vs. L&B estimated private market cap rate of **7.2%**
 - Excluding FCH's NYC assets at estimated fair market value, the Company trades at an implied cap rate of nearly **10%** (after a 4% capex reserve)
- › FCH currently trades at **\$225,000** per room vs. **2015 private market comparable transactions at substantially higher values**

- **Hotel asset values continued to rise throughout 2015 while FCH declined by approximately -50% from its 2015 highs**

L&B Estimated FCH Net Asset Value	\$10.50
<i>Current Share Price</i>	\$6.55
Upside to Net Asset Value	60%

2016 Net Operating Income	\$237,051
<i>Applied Cap Rate</i>	7.2%
Private Market Value of Properties	\$3,312,552

Cash	\$81,612
Other Assets	\$56,310
Total Assets	\$3,450,474

Debt and Other Liabilities	(\$1,571,972)
Preferred Stock Liquidation Value	(\$363,717)
Total Liabilities	(\$1,935,689)

Net Asset Value	\$1,514,786
Common Shares/OP Units Outstanding	143,993
L&B Estimated Net Asset Value	\$10.50

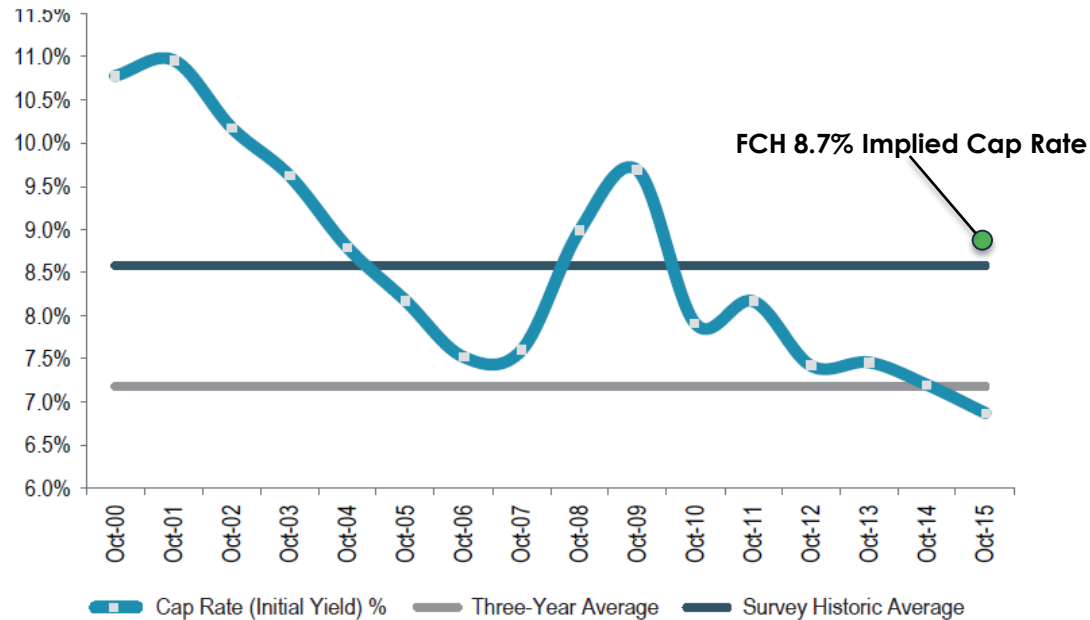
- **Asset by asset valuation for FelCor justifies a 7.2% portfolio cap rate**

- › FCH portfolio quality has materially improved as average portfolio RevPAR has more than doubled since 2004, but we believe investors continue to perceive the Company as low quality

FCH Market	# of Hotels	Rooms	L&B Est. Cap Rate	L&B Value Per Room (\$000s)
San Francisco Area	5	1,903	7.4%	\$317
Other California	4	1,615	6.8%	\$247
New York Area	4	876	N/A ¹	\$576
Florida	6	1,757	8.6%	\$226
Boston	3	916	6.9%	\$369
Los Angeles	2	481	7.7%	\$357
Myrtle Beach	2	640	9.3%	\$213
Texas	3	723	9.5%	\$201
Philadelphia	2	728	8.8%	\$164
Other Markets	9	2,633	7.8%	\$199
Total	40	12,272	7.2%	\$273

- **FCH implied cap rate of 8.7% well above 2015 transaction cap rates of below 7% in 2015 despite above average portfolio quality**
 - › Cap rates have declined 33bps through the first three quarters of 2015

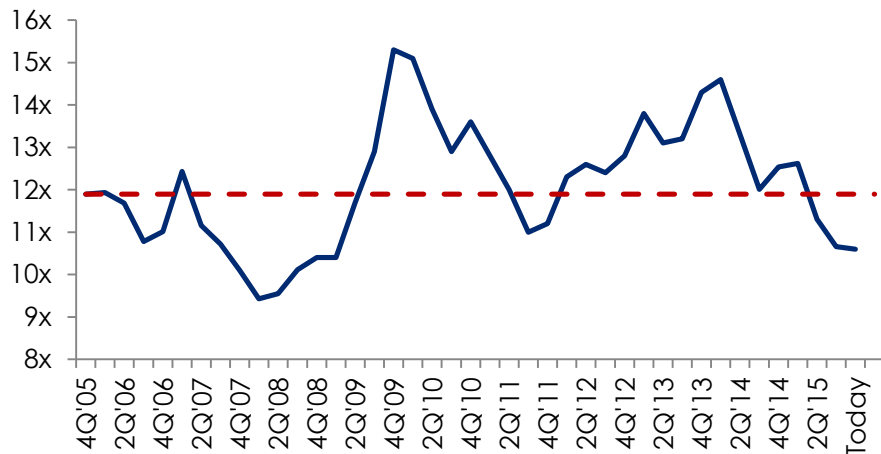
Private Market Hotel Transaction Cap Rates



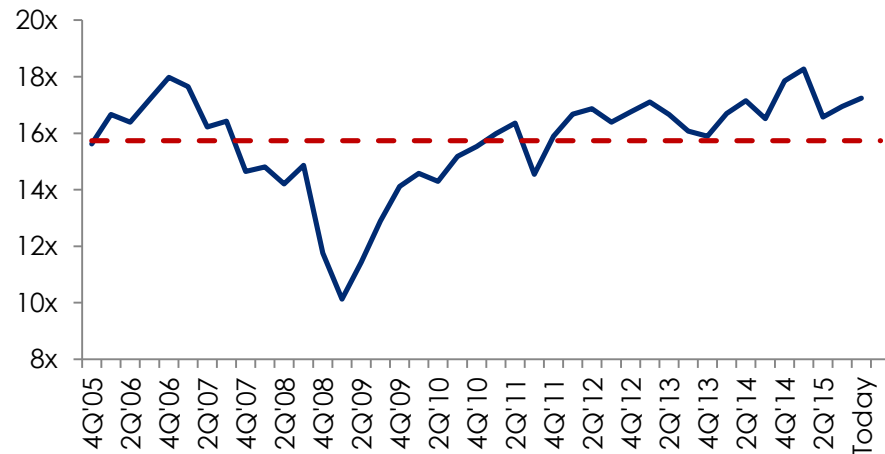
• FelCor multiple is lowest since the financial crisis

- > Current forward total enterprise value to EBITDA multiple of **10.6x** is well below trailing 10-year average of **11.9x**
- > **10.6x** is the lowest multiple FelCor has traded at since 3Q08
- > **REITs/real estate overall trading at near peak valuations inconsistent with FelCor valuation**

FCH EV/EBITDA Multiples



REIT Sector Overall TEV/EBITDA Multiples



— Forward TEV/EBITDA Multiple — — Average Multiple Since 4Q05

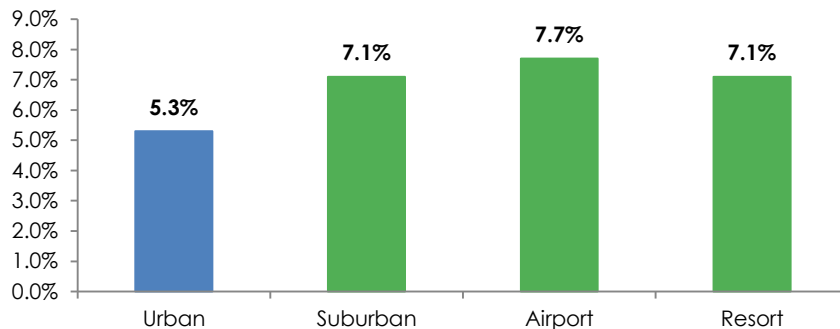
— Forward TEV/EBITDA Multiple — — Average Multiple Since 4Q05

III. Fundamentals

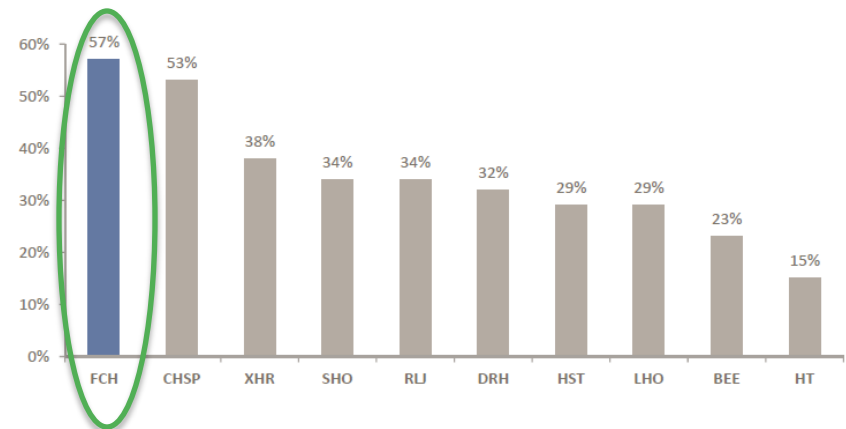
- **We believe FelCor's lodging portfolio is uniquely suited to outperform in the current environment**
 - › PKF, a leading lodging advisory firm, forecasts the majority of FelCor's markets to outperform the industry 2015 – 2017
 - › Suburban, resort and airport hotels outperformed the industry in 2015 (over 50% of FelCor rooms) and we anticipate outperformance again in 2016
 - › International guests are a small portion of business
 - › Airbnb exposure is minimal
 - › FelCor estimated RevPAR growth of ~8% in 2015 outpaced the industry by ~200bps, including an estimated ~5% RevPAR growth in 4Q15
 - › Land and Building's assume FCH RevPAR growth of 3 – 4% in 2016 reflecting current market and economic conditions despite industry forecasts of 5 – 5.5%
- **FelCor hotel portfolio is higher quality than what we believe investors' perceive**
 - › FelCor average RevPAR is estimated to be \$160 at year-end 2016 vs. industry average of \$74 and upper upscale average of \$124

- **Favorable market exposures should allow the Company to grow faster than peers**
 - › Greater suburban, resort and airport exposure beneficial as gateway markets experience a disproportionate amount of the new construction

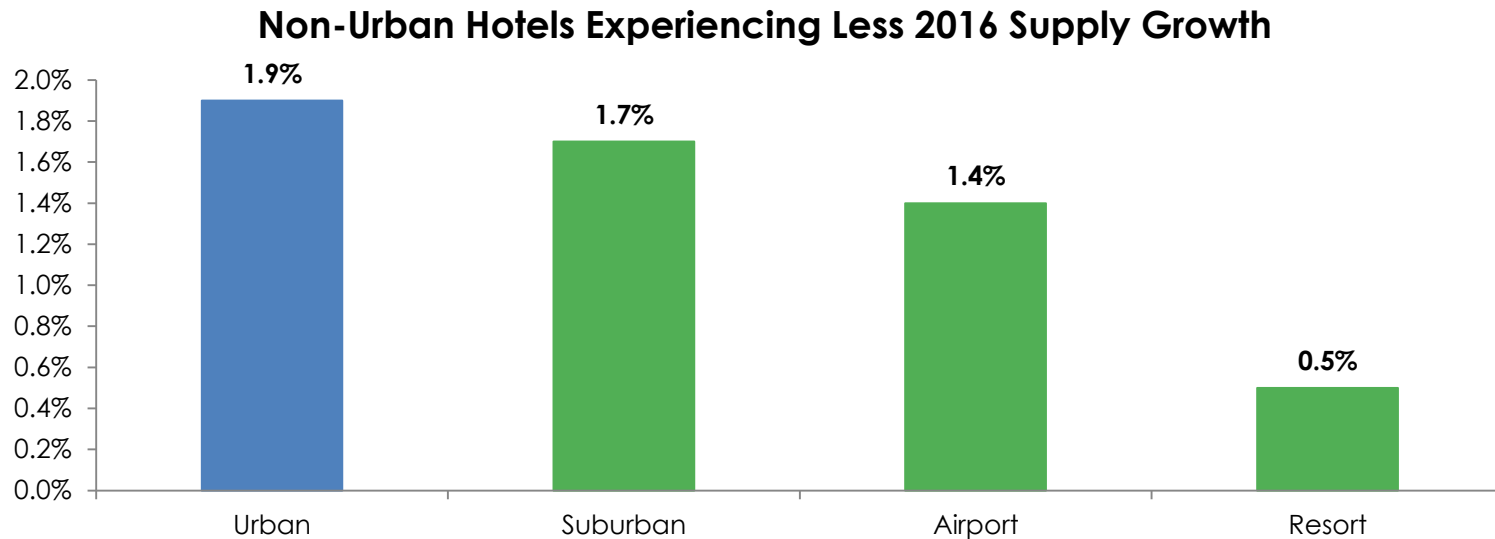
Non-Urban Hotel 2015 RevPAR Growth Outperformed



Percent Exposure to Markets Forecasted to Outperform U.S. Lodging Industry

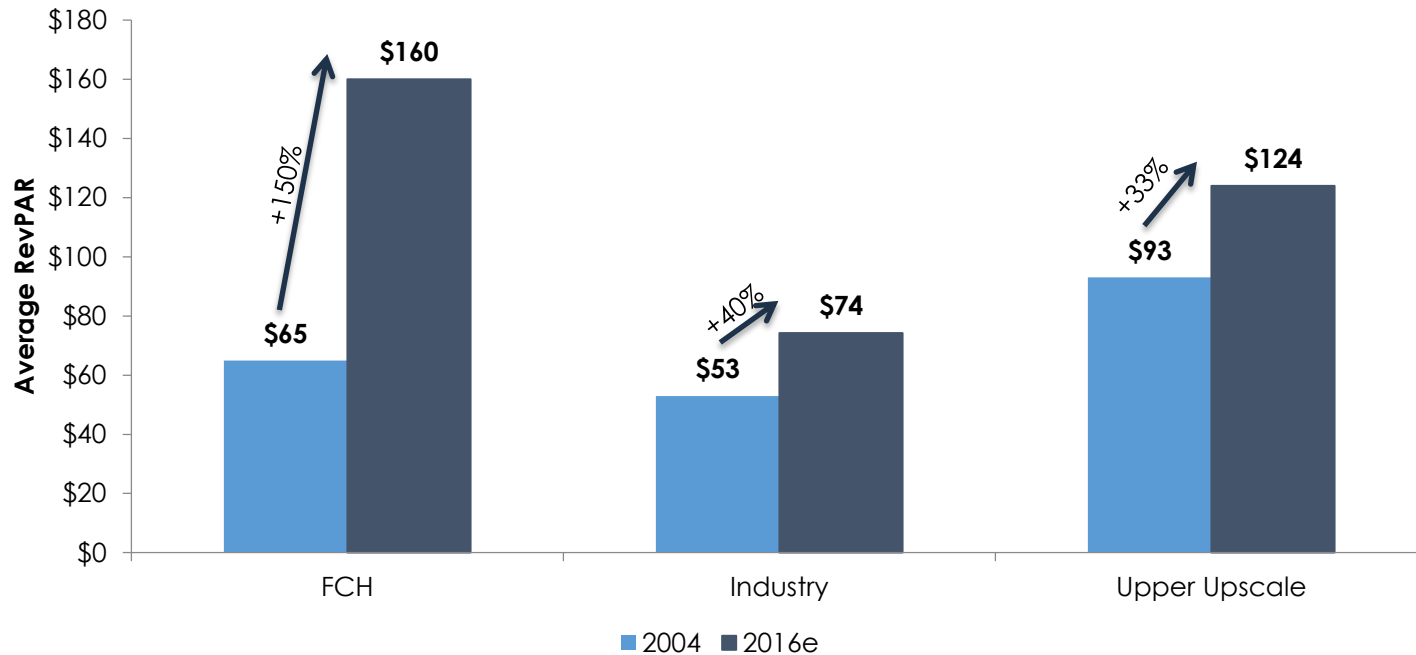


- We expect non-urban hotel outperformance to continue in 2016 given lower supply growth outlook, lower Airbnb exposure, and lower exposure to foreign tourism



- FelCor's portfolio quality is higher than we believe investors perceive

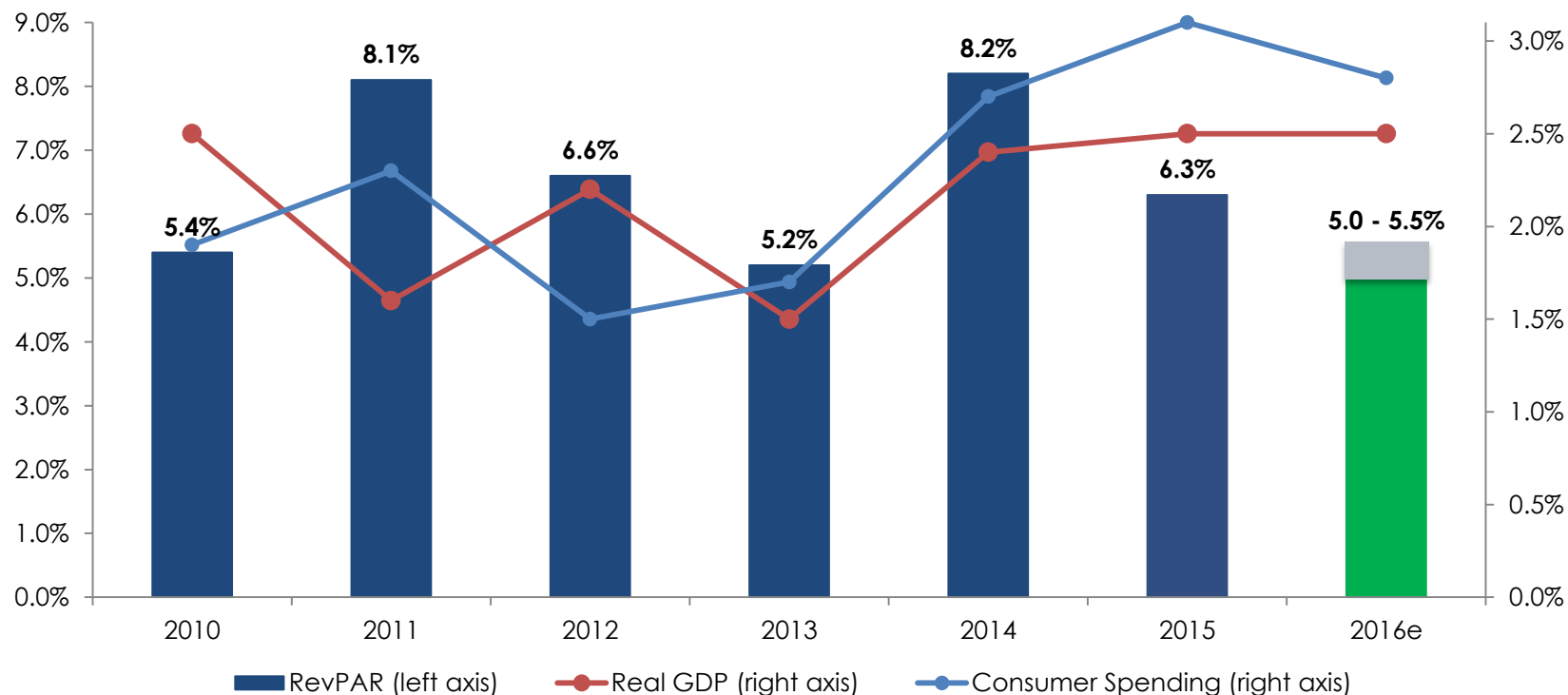
FCH Portfolio Has Dramatically Improved in Quality



• Industry forecasts support strong RevPAR growth

- › Leading industry consultants updated their lodging forecasts in late January, calling for 5.0%-5.5% RevPAR growth in 2016, taking into account current economic conditions

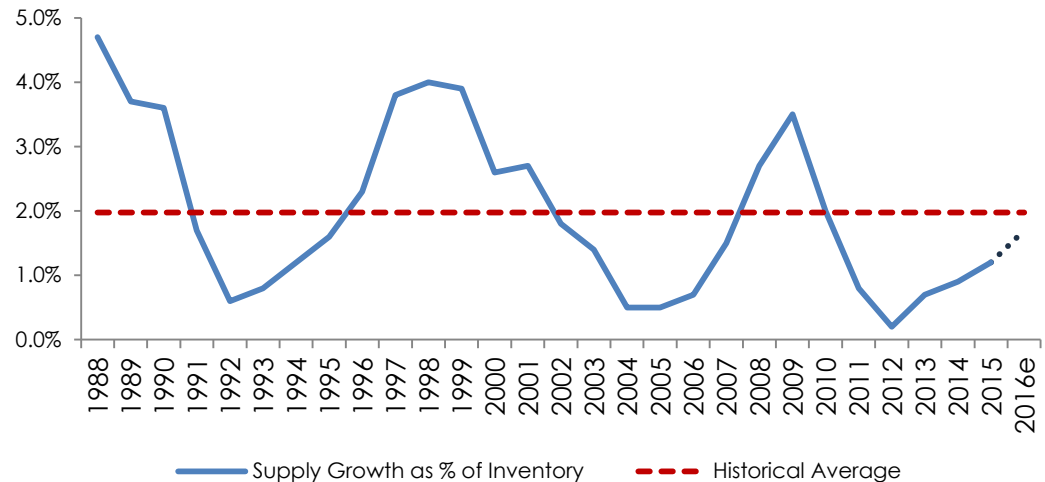
Strong RevPAR Growth Forecasted to Continue in 2016



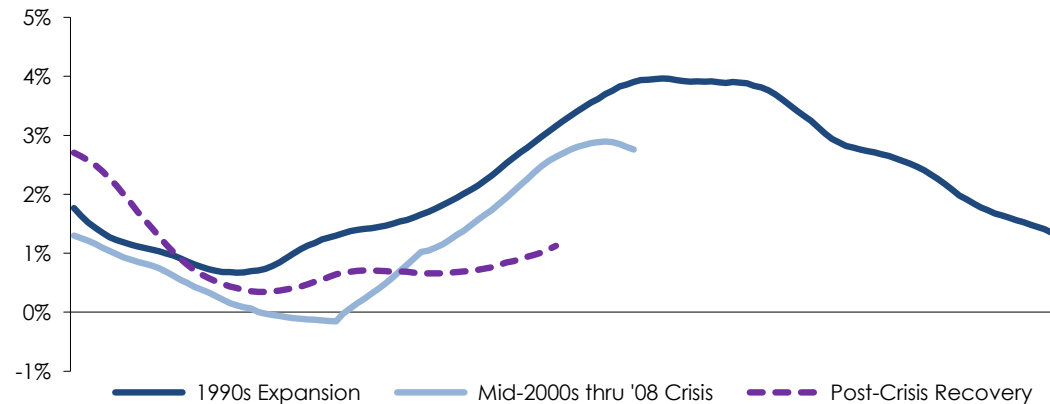
- **Current hotel recovery on sound footing compared to prior cycles**

- › **Supply growth remains below historical average:** new hotel supply growth is modest and FelCor is less exposed than peers to the gateway markets where construction is concentrated
- › **Demand outpacing supply:** barring an economic downturn, RevPAR should continue to rise, leading to higher hotel EBITDA
- › **High occupancies support pricing power:** high occupancies are leading to strong pricing power, which should drive margin expansion

Lodging Supply Growth Remains Below Average



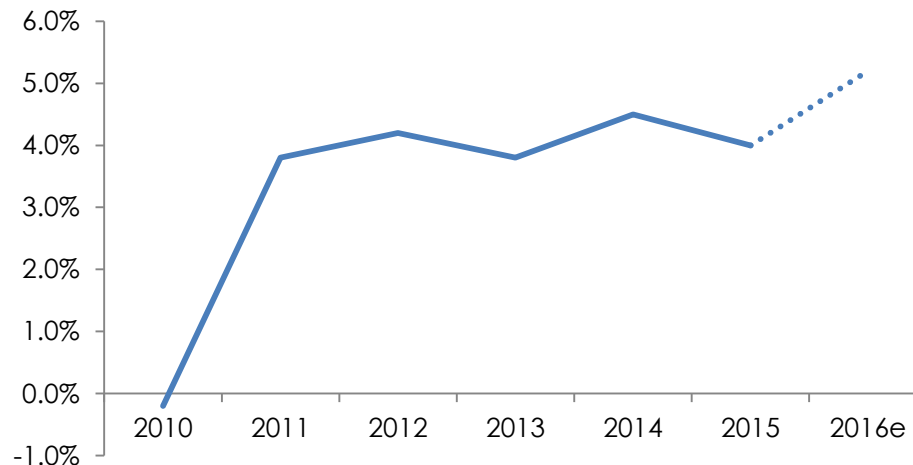
Trailing 12 Months Hotel Supply Growth



- **RevPAR growth in favorable part of cycle to drive margin expansion**

- › PKF forecasts that ADR (average daily rate) growth will accelerate given high occupancies and demand continuing to outpace supply, which should drive margins higher and allow EBITDA growth to outpace RevPAR growth

ADR Growth Accelerating

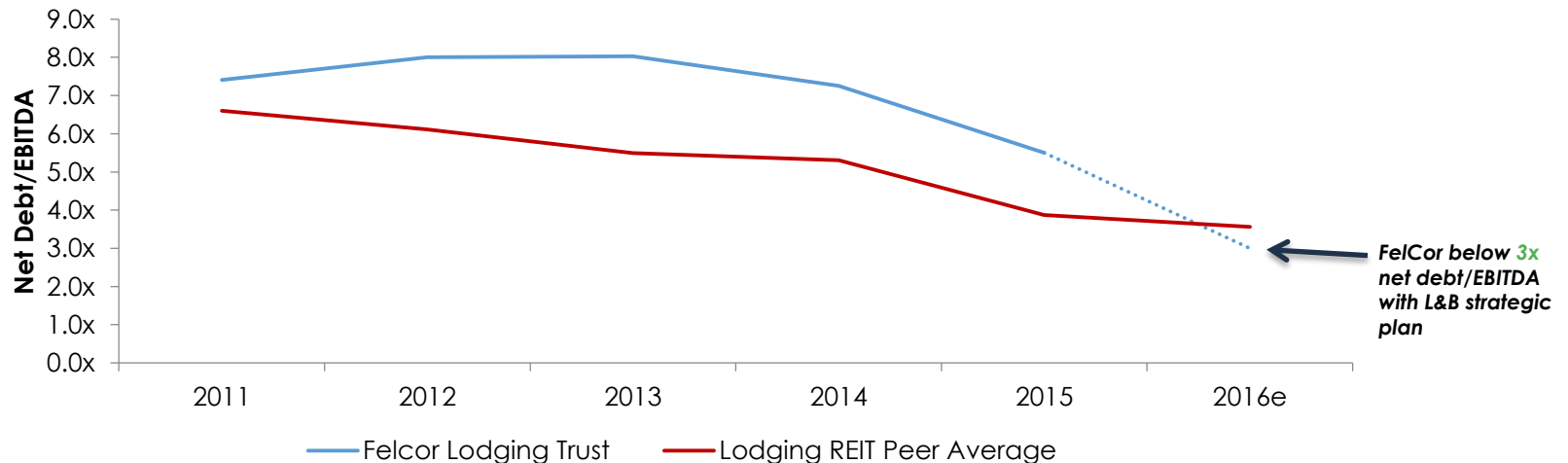


IV. Poor Balance Sheet Management

- **FelCor's balance sheet has not improved to the same degree as peers, but with L&B strategic plan there is a significant deleveraging opportunity in 2016**

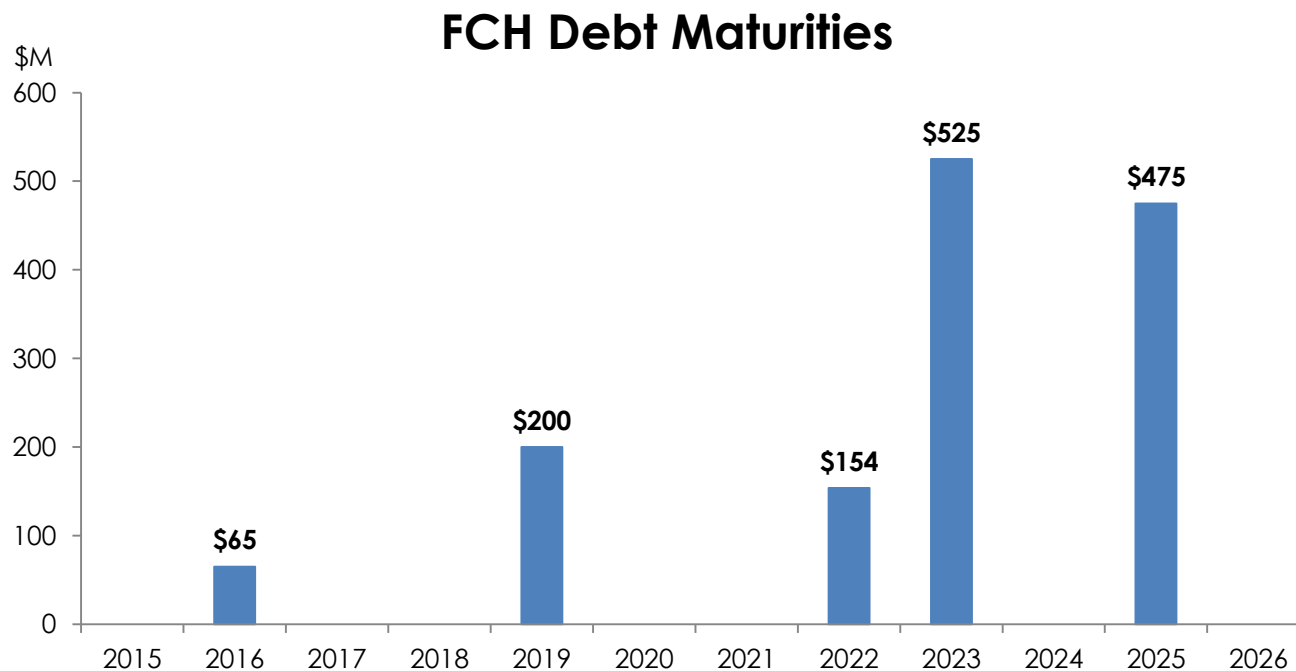
- › FelCor's net debt/EBITDA has declined from 7.4x in 2011 to 5.5x in 2015e, but remains above peers
- › L&B has put forth a plan that we believe can take FCH's net debt/EBITDA to under 3x at year-end 2016 while also boosting NAV per share
- › FelCor's high debt levels have spelled trouble for the Company in the past, nearly bankrupting the Company in the financial crisis, but we believe FCH is in position to build a fortress balance sheet if it follows through on the L&B strategic plan

FCH Leverage Can Be Lower Than Peers With L&B Strategic Plan



- **FelCor has no significant mortgage/bond maturities until 2022**

- › The Company has no significant debt maturing until 2019 (line of credit) and no significant mortgage/bonds until 2022



V. L&B Strategic Plan

- **Land and Buildings' strategic plan for FelCor concurrently improves portfolio positioning, net asset value and balance sheet metrics**

- 1) Selling New York City hotels
- 2) Sell the bottom ~10% of the portfolio
- 3) Buy back stock
- 4) Reduce net debt

Net Debt With L&B Strategic Plan	Amount (\$M)	EBITDA With L&B Strategic Plan	EBITDA (\$M)	Net Debt/EBITDA
Net Debt as of 3Q15	(\$1,346)	2016 EBITDA Before Plan	\$255	5.3x
NYC Hotel Sale Gross Proceeds	\$471	NYC EBITDA	(\$20)	
Bottom ~10% Asset Sale Gross Proceeds	\$375	Bottom ~10% Asset EBITDA	(\$40)	
\$200M Stock Buyback at \$7/share	(\$200)		-	
Retained Cash Flow	\$128			
Ending Net Debt After L&B Strategic Plan	(\$571)	2016 EBITDA After L&B Strategic Plan	\$195	2.9x

- **FelCor has 3 New York City hotels worth an estimated \$470M (15% of GAV) with significant buyer interest**

- › Knickerbocker in Times Square undervalued in public markets as its NOI is ramping following redevelopment
 - L&B values Knickerbocker at \$355M (10% of asset value) or \$1.1M per room, in-line with the Doubletree Guest Suites Times Square which was sold in December 2015
 - NYC multiple well in excess of FelCor's multiple in the public markets
- › L&B values Morgans and Royalton at \$430,000 and \$500,000 per room, respectively, well below the ~\$700,000 average per room for 2015 Manhattan hotel sales



Morgans New York, New York City



Royalton New York, New York City

2015 Manhattan Hotel Transactions	Sale Price Per Room
All Transactions	\$709,629
All Transactions Under \$1M Per Room	\$561,163

FCH Non-Times Square NYC Assets	L&B Est. Price Per Room
Morgans New York	\$427,000
Royalton New York	\$498,000

- **A company sale or liquidation should be explored concurrently with other strategic initiatives**
 - › Given the 60% upside to NAV, a strong case would need to be made to justify shareholder value will be best maximized by remaining a going concern
- **Merger or sale of the company is highly achievable if NAV cannot be realized in the public markets**
 - › Numerous private buyers are seeking additional exposure to lodging assets; foreign purchases of domestic hotels more than doubled in 2015
 - › \$36 billion of US hotel investment sales forecasted to be transacted in 2016
- **Will FelCor make the right decision this time? FCH should not let history repeat itself**
 - › In 2006, it was reported FelCor likely could have sold the Company for **\$22 - \$25** per share or roughly 400% the current stock price¹
 - › Instead of going private a decade ago, FCH nearly went bankrupt and destroyed significant shareholder value as it forged ahead with high debt levels to fund significant external growth activity, leading to two massively dilutive equity offerings in the wake of the financial crisis

- **The average hotel REIT go-private transaction has occurred at a 14x EBITDA multiple, in excess of the EBITDA multiple we apply to FCH in our \$10.50 NAV**

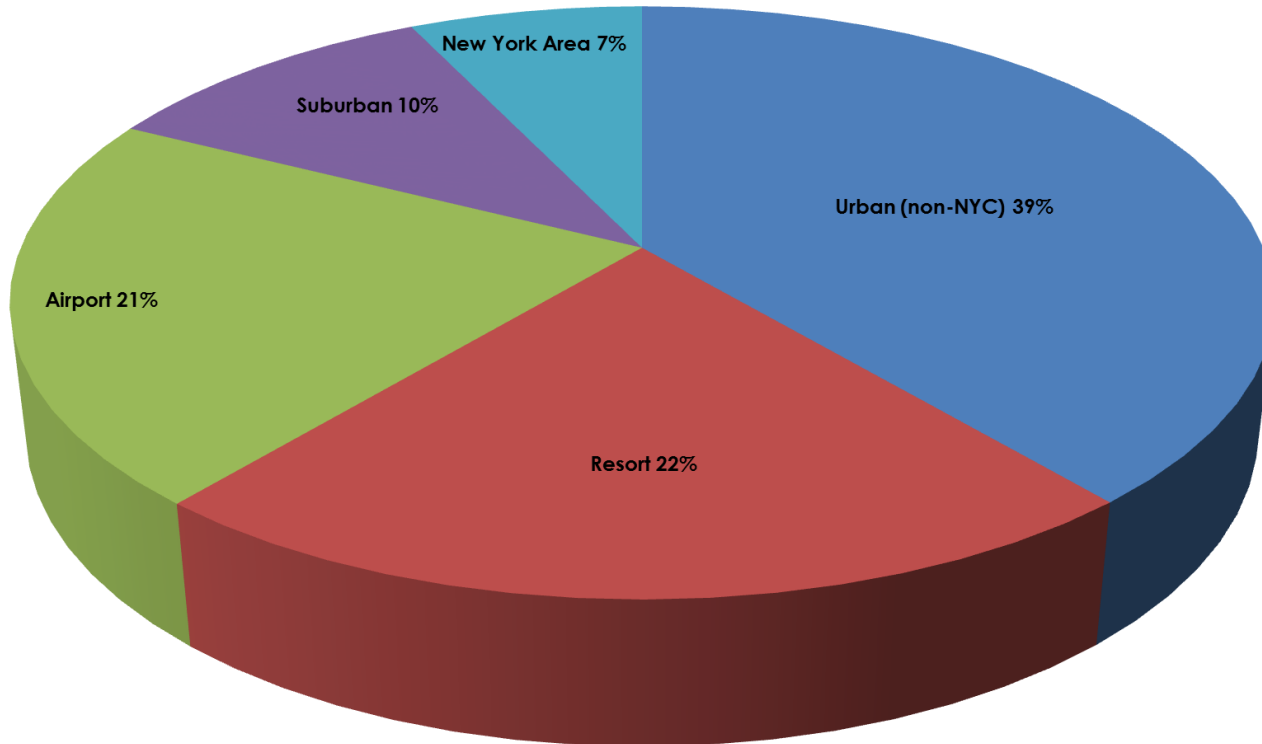
- › 15 lodging go-privates (6 C corps and 9 REITS) occurred last cycle 2004 – 2007
- › Since 2006, 6 lodging REITs greater than \$750 million in enterprise value have gone private at an average of 104% of consensus NAV and a 14x TEV/EBITDA multiple
 - Every go-private lodging REIT sold for 100% or greater of consensus NAV
 - Leading independent real estate research firm Green Street Advisors' net asset value estimate for FelCor is currently \$12 per share

Target	Target Ticker	Buyer	Date	Value (\$M)	% of NAV	TEV/EBITDA Multiple
MeriStar Hospitality	MHX	Blackstone Group	2/20/2006	2,544	103.6%	15.9x
Winston Hotels	WXH	Inland American REIT	4/2/2007	797	104.0%	11.2x
Innkeepers USA Trust	KPA	Apollo Investment Group	4/15/2007	1,531	100.2%	12.0x
Highland Hospitality Corp.	HIH	J.E. Robert Company	4/24/2007	1,936	104.6%	15.2x
Equity Inns	ENN	Goldman Sachs Group	6/20/2007	2,112	110.5%	15.4x
Strategic Hotels & Resorts	BEE	Blackstone Group	9/8/2015	5,875	100.2%	14.5x
Average					103.9%	14.0x

- **Corporate governance must be improved to ensure shareholder value is maximized**
 - › **De-stagger the Board immediately:** FCH is in the process of de-staggering the Board over the next 2 years, which we find to be an unnecessary delay and a form of continued entrenchment
 - › **Refresh the Board:** ISS views average director tenures exceeding 9 years as potentially threatening independence - average tenure of FCH directors is 12 years, with the majority of the current Board overseeing the Company's poor capital allocation and balance sheet management that led FelCor to the brink of bankruptcy in the financial crisis
 - › **Actions by written consent:** Shareholders can only act by unanimous written consent, gutting the utility of this key governance tool for effecting change between annual meetings
 - › **Allow shareholders to amend FCH's Bylaws:** FCH's current Bylaws can only be amended by the Board, significantly preventing shareholders' ability to change the rules governing the Company-shareholder relationship
- **Recent corporate governance enhancements have only been enacted under apparent shareholder pressure**
 - › i.e. opting out of MUTA (Maryland Unsolicited Takeover Act) and adopting more favorable restrictions surrounding the Company's ability to enact a poison pill

VI. Appendix

FCH Portfolio By Segment



New York Area Hotels	State
Secaucus Meadowlands Embassy Suites	NJ
Morgans New York	NY
Royalton New York	NY
The Knickerbocker	NY

Urban Hotels (non-NYC)	State
San Diego Bayside Wyndham	CA
San Francisco Fisherman's Wharf Holiday Inn	CA
San Francisco Marriott Union Square	CA
Santa Monica at the Pier Wyndham	CA
Atlanta Buckhead Embassy Suites	GA
New Orleans French Quarter Wyndham	LA
Boston Beacon Hill Wyndham	MA
Fairmont Copley Plaza Boston	MA
Philadelphia Historic District Wyndham	PA
Philadelphia Society Hill Sheraton	PA
Pittsburgh University Center Wyndham	PA
The Mills House Charleston Wyndham Grand	SC
Austin Doubletree	TX
Houston Medical Center Wyndham	TX

Suburban Hotels	State
Birmingham Embassy Suites	AL
Phoenix Biltmore Embassy Suites	AZ
Milpitas Silicon Valley Embassy Suites	CA
Boston Marlborough Embassy Suites	MA
Burlington Hotel & Conference Center Sheraton	VT

Resort Hotels	State
Mandalay Beach Hotel & Resort Embassy Suites	CA
Napa Valley Embassy Suites	CA
Renaissance Esmeralda Indian Wells Resort & Spa	CA
Deerfield Beach Resort & Spa Embassy Suites	FL
Orlando International Drive/South Embassy Suites	FL
Orlando WDW Village Doubletree	FL
Renaissance Vinoy St Petersburg Resort & Golf Club	FL
Hilton Myrtle Beach Resort	SC
Myrtle Beach Oceanfront Resort Embassy Suites	SC

Airport Hotels	State
Los Angeles LAX South Embassy Suites	CA
San Francisco Waterfront Embassy Suites	CA
South San Francisco Embassy Suites	CA
Ft. Lauderdale Embassy Suites	FL
Miami Airport Embassy Suites	FL
Minneapolis Airport Embassy Suites	MN
Nashville Opryland Holiday Inn	TN
Dallas Love Field Embassy Suites	TX

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