

# LANDandBUILDINGS

## Land and Buildings Comments on FelCor Lodging Trust

- Multiple catalysts forthcoming that will likely drive 30% upside in the shares to close gap to net asset value –
  - Industry leading 5% RevPAR growth year-to-date and likely to outperform again in 2016 –
- Believes FelCor is trading at a low valuation relative to the \$20 billion in reported private market sales the past month –
- FelCor's valuation supports opportunity to unlock value through announced asset sales, stock buy backs and debt pay down –
  - Corporate governance enhancements, including two new independent directors and a Finance Committee empowered to review all capital markets activity should reassure investors that value will be maximized for all shareholders –

**Stamford, CT** (March 31, 2016) – Land and Buildings Investment Management, LLC ("Land and Buildings") today issued the following letter to the shareholders of FelCor Lodging Trust (NYSE: FCH) ("FelCor" or the "Company"):

Dear Fellow FelCor Shareholders:

FelCor's stock trades at a significant discount to our estimated net asset value and we believe there are multiple catalysts that will cause FelCor to realize the 30% upside to NAV. Specifically:

- FelCor's portfolio is well positioned to continue to outperform the lodging industry; FCH's RevPAR growth in January and February 2016 of more than 5% is significantly above the 2% growth the industry experienced during the same time frame.
- Private market hotel transactions are continuing to validate the value of FCH's portfolio as buyer demand for high-end hotels remains strong, including the recent reported sale of a 19 hotel portfolio owned by Blackstone for over \$6 billion, and a recent topping bid for Starwood Hotels & Resorts (NYSE: HOT) of \$15 billion.
- Potential sale of the Company's three New York assets, among others, which are currently being marketed for sale. Strong buyer interest highlights that this is an opportune time to unlock shareholder value.
- FelCor's balance sheet is healthy and set to improve materially by the end of the year, with asset sales proceeds likely to be used to buy back stock and pay down debt.
- Two new independent board members are to be appointed at the 2016 annual meeting and a Finance Committee will be formalized and empowered to review all capital markets activity.

### **FelCor's RevPAR Growth Poised to Outperform, Highlighted by Strong Early 2016 Trends**

FelCor's hotel portfolio, which is concentrated in suburban, airport and resort markets, positions the Company to continue to generate industry leading RevPAR growth in 2016 as it has over the past eight

years. The Company's advantageous positioning makes its portfolio more insulated from elevated supply growth in gateway markets, Airbnb competition and foreign tourism trends. FelCor is off to a strong start in 2016 with RevPAR growth of 4.1% in January, ahead of the industry's growth of 2.4%, and management expects more than 7% growth in February, ahead of the industry's ~2% growth.

### **Private Market Bid For Hotels Remains Strong, Supporting Company's Asset Sale Program**

Chinese insurance giant Anbang has purchased or offered to purchase over \$20 billion of hotels just this month, highlighting the significant private market bid for hotels today despite the stock and credit market gyrations earlier this year. Specifically:

- Anbang reportedly paid nearly 10% more for Strategic Hotels than Blackstone agreed to purchase the company for in September of 2015, a 16x EBITDA multiple<sup>1</sup>. FCH's stock is down over 10% over that same time period.
- Anbang is reportedly part of a consortium that offered to pay a 16x EBITDA multiple<sup>2</sup> for Starwood, in a topping bid to Marriott's offer to buy the company.
- FelCor currently trades at an estimated ~11x EBITDA.

Management is undertaking a plan to sell assets to close the discount to net asset value, utilizing the proceeds to buy back stock and reduce debt. The Company is marketing its three assets in Manhattan for sale, two of which are currently under letter of intent, as well two additional assets. The valuation management outlined for these five assets on its fourth quarter earnings call of \$475 million of gross proceeds<sup>3</sup> is more than 10% in excess of the valuation of these assets included in our \$10.50 per share, highlighting upside potential to our current net asset value estimate.

### **Balance Sheet is Healthy and Set to Improve Further**

FelCor has outlined a path for net debt/EBITDA to decline below 4x from 7.4x in 2011 through planned asset sales and organic EBITDA growth. In addition, the Company has no significant debt maturing until 2019 (line of credit) and no significant mortgage/bonds until 2022.

### **New Board Highlights Focus on Maximizing Shareholder Value**

We are pleased that we were able to work with the Company to refresh the Board of Directors with two new directors, as well as to form a formal Finance Committee that will oversee all capital markets activity of the Company and be comprised of a majority of independent directors. We believe these steps should clearly highlight to the market that FCH is focused on maximizing value for all shareholders.

Sincerely,



Jonathan Litt

Founder & CIO

Land and Buildings Investment Management, LLC

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<sup>1</sup> Wells Fargo estimate

<sup>2</sup> Green Street Advisors estimate

<sup>3</sup> Based on a sale of a 44% interest of the Knickerbocker

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**About Land and Buildings:**

Land and Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land and Buildings seeks to deliver attractive risk adjusted returns by opportunistically investing in securities of global real estate and real estate related companies, leveraging its investment professionals' deep experience, research expertise and industry relationships.

**Media Contact:**

Elliot Sloane / Dan Zacchei

Sloane & Company

212-486-9500

[Esloane@sloanepr.com](mailto:Esloane@sloanepr.com) or

[Dzacchei@sloanepr.com](mailto:Dzacchei@sloanepr.com)