Hospitality Properties Trust Revises and Extends its Contracts with InterContinental Hotels Group

NEWTON, Mass.--(BUSINESS WIRE)-- Hospitality Properties Trust (NYSE: HPT) today announced that it has revised and extended its hotel management contracts with InterContinental Hotels Group, plc (LON: IHG; NYSE: IHG (ADRs)), as follows:

- HPT currently owns 130 hotels that are managed by IHG under four contracts pursuant to which HPT receives owner's priority returns of $153.1 million/year (including rent for the leased San Juan InterContinental hotel). All 130 hotels will be included in one combination contract so that any excess cash flow from any of the hotels is available to pay HPT's owner's priority returns for all 130 hotels.
- The combined owner's priority returns due to HPT from the 130 hotels will be $153.1 million/year; i.e., the same amount as is currently due HPT under the historical contracts.
- The historical contracts were scheduled to expire beginning in 2028 through 2031. The new combination contract will extend to 2036. In addition, IHG will have options to renew this combined contract for two consecutive 15 year terms on an all or none basis; i.e., the renewal options must be exercised for all of the hotels included in the combination contract.
- The security deposit held by HPT for the historical IHG contracts ($27.6 million as of June 30, 2011) will continue to secure payment of HPT's owner's priority returns under the new combined contract. In addition, IHG has delivered to HPT $37 million to supplement this security deposit; i.e., the security deposit available on June 30, 2011 plus this supplement will total $64.6 million.
- The security deposit for HPT's future owner's priority returns will be further increased up to $100 million from 50% of the cash flows realized from operations of the hotels in the combined contract after payment of HPT's owner's priority returns. All security deposits are and will be held by HPT, without interest or escrow.
- The cash flows in excess of amounts used to pay HPT's owner's priority returns and to fund the security deposit up to $100 million are available to pay IHG's management fees to agreed amounts, which continue to be subordinated to HPT's owner's priority returns.
- Available cash flows after HPT's owner's priority returns, funding for the security deposit and the agreed management fees are available to pay additional returns to HPT and for incentive fees to IHG.
- HPT and IHG have identified 42 hotels of the 130 hotels in the combined contract which may be removed from the contract by HPT and rebranded or offered for sale. If the hotels are removed from the contract and rebranded, the owner's priority returns to HPT will be reduced by amounts which have been agreed by HPT and IHG; if these hotels are sold, the owner's priority returns due to HPT will be reduced by 8% per annum of the net sales proceeds received by HPT. In addition to these 42 hotels, one hotel previously managed by IHG was sold on July 19, 2011, HPT received net sales proceeds of approximately $7 million and the owner's priority returns to HPT was reduced by 8% per annum of the sales proceeds to the current amount of $153.1 million/year.
- HPT and IHG have agreed to a renovation program for all of the hotels included in the contract pursuant to which HPT expects to invest approximately $300 million. The final amounts invested will depend upon the number of hotels which HPT determines to rebrand or sell and remove from the IHG contract. As HPT funds these renovations, the amounts of its owner's priority returns will increase by 8% per annum of the amounts HPT invests. Some of the capital required for these renovations may be provided by hotel sales, but the timing of HPT's renovation fundings and receipts of sales proceeds will likely differ.
- The combined contract will require that up to 5% of gross revenues from all the hotels be escrowed for hotel maintenance and periodic refurbishment after the planned renovations being separately funded by HPT are completed. These escrows will be required beginning in 2014 and increase to 5% of gross revenues in 2016. These escrowed funds will be available on a pooled basis to fund renovations for any of the HPT owned hotels managed by IHG.
- The new combined contract is effective as of July 1, 2011.

John Murray, President of HPT, made the following statement in connection with the revised and extended contract entered by HPT and IHG:

"IHG is one of the premier hotel management companies in the world. HPT is pleased that it is able to continue its business relationship with IHG. The negotiation of this revised and extended contract was difficult and time consuming, but HPT believes the result is a strong foundation for continuing business between HPT and IHG."

Hospitality Properties Trust is a real estate investment trust, or REIT, headquartered in Newton, Massachusetts, which owns 288 hotels and 185 travel centers located in 44 states, Puerto Rico and Ontario, Canada.

WARNING REGARDING FORWARD LOOKING STATEMENTS

THIS PRESS RELEASE CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON HPT'S CURRENT BELIEFS AND EXPECTATIONS. HOWEVER, THESE FORWARD LOOKING STATEMENTS AND THEIR IMPLICATIONS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR FOR VARIOUS REASONS, INCLUDING SOME REASONS BEYOND HPT'S CONTROL. FOR EXAMPLE:

- THIS PRESS RELEASE STATES THAT IHG HAS DELIVERED $37 MILLION TO INCREASE THE DEPOSIT WHICH SECURES HPT'S PRIORITY RETURNS AND THAT THE TOTAL SECURITY DEPOSIT MAY BE INCREASED TO $100 MILLION. AN IMPLICATION OF THESE STATEMENTS MAY BE THAT HPT IS ASSURED OF RECEIVING ITS OWNER'S PRIORITY RETURNS. IN FACT, DURING THE PAST THREE YEARS, HPT'S HOTELS MANAGED BY IHG HAVE NOT GENERATED SUFFICIENT CASH FLOW TO PAY HPT'S PRIORITY RETURNS, IHG HAS PAID $125 MILLION PURSUANT TO ITS GUARANTEE OF HPT'S PRIORITY RETURNS AND THE HISTORICAL SECURITY DEPOSIT HELD BY HPT HAS BEEN REDUCED FROM $36.9 MILLION TO $27.6 MILLION AS OF JUNE 30, 2011. HPT CAN PROVIDE NO ASSURANCE THAT THE ENLARGED SECURITY DEPOSIT PAID BY IHG OR WHICH MAY BE CREATED WILL BE SUFFICIENT TO ENSURE FUTURE PAYMENTS OF HPT'S PRIORITY RETURNS FROM THE HOTELS MANAGED BY IHG. THE OPERATING RESULTS AT HPT'S HOTELS WHICH ARE MANAGED BY IHG DEPEND ON IHG'S ABILITY TO SUCCESSFULLY OPERATE THE HOTELS AND, IN LARGE PART, UPON GENERAL ECONOMIC CONDITIONS, BOTH OF WHICH ARE BEYOND HPT'S CONTROL.
- THIS PRESS RELEASE STATES THAT HPT HAS AGREED TO INVEST APPROXIMATELY $300 MILLION TO FUND RENOVATIONS TO ITS HOTELS MANAGED BY IHG. THE COSTS OF HOTEL RENOVATIONS ARE DIFFICULT TO ESTIMATE. ONCE A RENOVATION PROJECT IS BEGUN IT OFTEN MUST BE FINISHED FOR THE HOTEL TO EFFECTIVELY OPERATE. COST OVERRUNS MAY OCCUR FOR MANY DIFFERENT REASONS, SOME OF WHICH ARE BEYOND HPT'S CONTROL. ALSO, AS STATED IN THIS PRESS RELEASE, THE FINAL AMOUNTS INVESTED IN HPT'S HOTELS MANAGED BY IHG WILL DEPEND UPON THE NUMBER OF HOTELS WHICH HPT DETERMINES TO REBRAND OR SELL AND REMOVE FROM THE IHG CONTRACT. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE PLANNED RENOVATIONS WILL BE COMPLETED FOR $300 MILLION.
- THIS PRESS RELEASE STATES THAT THE NEW COMBINED CONTRACT REQUIRES THAT AN INCREASING AMOUNT UP TO 5% OF GROSS REVENUES FROM ALL OF THE HPT HOTELS MANAGED BY IHG TO BE ESCROWED FOR PERIODIC REFURBISHMENTS BEGINNING IN 2014 AFTER THE CURRENTLY PLANNED RENOVATIONS. AN IMPLICATION OF THIS STATEMENT MAY BE THAT THIS ESCROW WILL BE SUFFICIENT TO FUND FUTURE CAPITAL NEEDS AT THESE HOTELS. HPT BELIEVES THAT THE 5% RATE IS AT OR ABOVE AMOUNTS WHICH ARE GENERALLY REQUIRED TO BE ESCROWED UNDER MANAGEMENT CONTRACTS IN THE HOTEL INDUSTRY. NONETHELESS, HPT'S EXPERIENCE IS THAT THIS ESCROW AMOUNT MAY NOT BE SUFFICIENT TO PAY ALL COSTS OF MAINTAINING HOTELS TO BRAND STANDARDS OR OTHERWISE IN A MANNER WHICH IS ATTRACTIVE TO HOTEL CUSTOMERS. ALSO, NO REFURBISHMENT ESCROWS ARE REQUIRED IN THE NEW COMBINED CONTRACT DURING THE PERIOD OF THE HPT FUNDED RENOVATIONS THROUGH 2013 AND LESS THAN 5% OF GROSS REVENUE WILL BE REQUIRED BEFORE 2016. ACCORDINGLY, HPT MAY PERIODICALLY INVEST ADDITIONAL AMOUNTS TO MAINTAIN THE HOTELS.
- THIS PRESS RELEASE STATES THAT HPT BELIEVES THAT THE REVISED AND EXTENDED CONTRACT ENTERED WITH IHG CREATES A STRONG FOUNDATION FOR CONTINUING BUSINESS BETWEEN HPT AND IHG. AN IMPLICATION OF THIS STATEMENT MAY BE THAT HPT WILL RECEIVE ITS OWNER'S PRIORITY RETURNS FROM HOTELS MANAGED BY IHG FOR THE FULL TERM OF THE NEW COMBINED CONTRACT AND THAT IHG WILL NOT OTHERWISE DEFAULT ITS OBLIGATIONS UNDER THAT CONTRACT. FOR THE REASONS STATED ABOVE, HPT CAN PROVIDE NO ASSURANCE THAT THE FINANCIAL RESULTS OF IHG'S OPERATIONS OF HPT'S HOTELS WILL BE SUFFICIENT TO PAY HPT'S OWNER'S PRIORITY RETURNS, THAT THE SECURITY DEPOSIT AND OTHER CONTRACT FEATURES WILL BE SUFFICIENT TO INSURE THAT HPT RECEIVES ITS OWNER'S PRIORITY RETURNS, OR THAT THE COMBINED CONTRACT IS NOT OTHERWISE DEFAULTED.

THE INFORMATION CONTAINED IN HPT'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, INCLUDING UNDER "RISK FACTORS" IN HPT'S PERIODIC REPORTS, IDENTIFIES OTHER IMPORTANT FACTORS THAT MAY CAUSE HPT'S ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE STATED IN THE FORWARD LOOKING STATEMENTS IN THIS PRESS RELEASE OR IMPLIED BY SUCH STATEMENTS. HPT'S FILINGS WITH THE SEC ARE AVAILABLE ON THE SEC'S WEBSITE AT WWW.SEC.GOV.

YOU SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

EXCEPT AS MAY BE REQUIRED BY LAW, HPT DOES NOT INTEND TO UPDATE OR CHANGE ANY FORWARD LOOKING STATEMENTS AS A RESULT OF NEW INFORMATION WHICH BECOMES AVAILABLE TO HPT, FUTURE EVENT OR OTHERWISE.

A Maryland Real Estate Investment Trust with transferable shares of beneficial interest listed on the New York Stock Exchange. No shareholder, Trustee or officer is personally liable for any act or obligation of the Trust.

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