HERSHA HOSPITALITY TRUST
Form 424B4
April 20, 2004
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Registration No. 333-113227

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

PRELIMINARY PROSPECTUS SUPPLEMENT   Subject To Completion   April 19, 2004

(To Prospectus dated March 26, 2004)

2,500,000 Shares

Hersha Hospitality Trust

Common Shares

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

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

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

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

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

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

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

UBS Investment Bank

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

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

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Prospectus supplement summary

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

Our Company

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. We focus primarily on owning and operating high quality, mid-scale limited service hotels in established markets in the Eastern United States. Our primary strategy is to continue to acquire high quality, mid-scale hotels in metropolitan markets with high barriers to entry in the Northeastern United States. As of March 31, 2004, our portfolio consisted of 25 hotels with a total of 2,570 rooms located in Pennsylvania, New York, New Jersey, Maryland, Georgia, Connecticut, and Massachusetts which operate under leading brands, such as Hampton Inn®, Hilton Garden Inn®, Holiday Inn®, Holiday Inn Express®, DoubleTree®, Comfort Inn®, Comfort Suites®, Mainstay Suites®, Sleep Inn®, Sheraton Four Points®, and Residence Inn®.

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

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

Market Opportunity

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

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

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Competitive Strengths

Our Existing Portfolio

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

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

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

Growth Platform

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

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

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Experienced Leadership

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

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

Consistent Dividends

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

Business Strategy

Increase Same Hotel Growth

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

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

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

Acquisition Platform

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

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

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

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

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

Prudent Use of Leverage

The relative stability of the mid-scale segment of the lodging industry allows us to increase returns to our shareholders through the prudent application of leverage. Our strategy is to maintain target debt levels of approximately 60% of the total purchase price of our hotels both on an individual and aggregate basis, and our Board of Trustees policy is to limit indebtedness to no more than 67% of the total purchase price of all our hotels on an aggregate basis. We may employ a higher amount of leverage at a specific hotel to achieve a desired return when warranted by that hotel s historical operating performance and may use modestly greater leverage across our portfolio if and when warranted by prevailing market conditions.

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Properties

Existing Properties

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

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

Weighted average	63.5%	$ 85.57	$ 54.06

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

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

	Year Opened	Number of Rooms	Twelve Months Ended December 31, 2003				
			Room Revenue	Other Revenue(1)	Occupancy	Average Daily Rate	REVPAR(2)
Hotels							
Hampton Inn:							
Chelsea, NY (3)	2003	144	$ 2,015,202	$ 11,830	76.6%	$ 143.91	$ 110.19
Hilton Garden Inn:							
Glastonbury, CT (4)	2003	150	$ 203,785	$ 57,122	24.9%	$ 111.42	$ 27.73
Total		294	$ 2,218,987	$ 68,952			
Total Revenues			$ 2,287,939				
Weighted average					50.2%	$ 127.34	$ 68.12

(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) Hotel opened in August 2003. We own 33.3% of the joint venture. CNL Hospitality Partners, L.P. owns 66.7% of joint venture.
(4) Hotel opened in November 2003. We own 40% of the joint venture. Joseph Pacitti and PRA Glastonbury Management own 59% and 1% of the joint venture, respectively.

Recent Developments

Since December 31, 2003, we completed the following additions to our portfolio:

Ø *Holiday Inn Express, Hartford, Connecticut*. On January 14, 2004, we acquired the 96 room Holiday Inn Express, Hartford, Connecticut for approximately $3 million and assumed the ground lease for the underlying property.

Ø *Four Points by Sheraton Boston/Logan International Airport.* On March 11, 2004, we acquired a 55% joint venture interest in the 180 room Four Points by Sheraton Boston/Logan International Airport for approximately $3.0 million. The Four Points Sheraton Boston/Logan International Airport was substantially rebuilt in 2001 and is located in Revere, Massachusetts, within five miles of Boston Logan Airport and downtown Boston.

Ø *Residence Inn, Framingham, Massachusetts.* On March 26, 2004 we acquired the 125 room Residence Inn, Framingham, Massachusetts for approximately $15.6 million.

All of these hotels have been or will be leased to a TRS and managed by Hersha Hospitality Management, a Hersha-affiliated, regional hotel management company.

Tax Status and Structure

We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (or the Code). 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 the accompanying prospectus.

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The following chart shows the structure of our company as of March 31, 2004:

(1) *Represents the 190,266 units of limited partnership interest owned by CNL which were redeemed immediately prior to this offering for the 2,816,460 common shares being sold in this offering (including the shares subject to the underwriter s over-allotment option). Upon completion of the offering, CNL will not own an interest in our operating partnership but will continue to own its interest in our joint venture. See note (6) below.*
(2) *As of March 31, 2004, our public shareholders owned 13,571,665 common shares.*
(3) *Represents the general partner interest in our operating partnership.*
(4) *Our officers and trustees own in the aggregate 2,111,263 common limited partnership units of our operating partnership, which are redeemable for an equal number of common shares.*
(5) *Third party investors in our operating partnership own 731,174 common limited partnership units, which are redeemable for an equal number of 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 common shares.*
(7) *Including PRA Glastonbury, LLC and Logan Hospitality Associates, LLC. PRA Glastonbury, LLC leases its property to its wholly-owned subsidiary, Hersha PRA TRS, Inc., and Logan Hospitality Associates, LLC leases its property to its subsidiary, Revere Hotel Group, LLC. Hersha PRA TRS, Inc. and Revere Hotel Group, LLC are taxable REIT subsidiaries of the Company.*

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The offering

Common shares offered by CNL in this offering	2,816,460
Common shares to be outstanding after this offering	16,388,125
American Stock Exchange Symbol	HT
Use of Proceeds	We will not receive any proceeds from the sale of the common shares by CNL.

The number of common shares offered by CNL in the summary above includes the 316,460 common shares subject to the underwriter s over-allotment option.

The number of common shares to be outstanding after this offering in the summary above is based on 13,571,665 shares outstanding as of March 31, 2004, and does not include, as of that date:

- Ø 1,192,141 common shares issuable upon exchange of CNL s interest in our joint venture; and
- Ø 2,842,437 common shares issuable upon redemption of outstanding common limited partnership units in our operating partnership which are currently redeemable.

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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 period ended December 31, 2003, were derived from our audited consolidated financial statements audited by Reznick Fedder & Silverman, and the financial data as of and for the period ended December 31, 2002 and 2001 are derived from our audited consolidated financial statements audited by Moore Stephens, P.C., our former auditors. 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 set forth in our Annual Report on Form 10-K for the year ended December 31, 2003. The summary data provided below is not necessarily indicative of future performance.

	Year Ended December 31,		
Operating data:	**2003**	**2002**	**2001**
	(In thousands, except per share data)		
Revenue:			
Percentage Lease Revenues HHMLP(1)	$ 12,910	$ 11,433	$ 9,558
Percentage Lease Revenues Other(2)	960	2,801	2,801
Hotel Operating Revenues	4,731		
Interest	86	7	32
Interest Related Party	715	207	154
Other Revenue	8		
Income (Loss) from Equity Method Investees	(24)		
Total Revenue	19,386	14,448	12,545
Expenses:			
Interest Expense	4,894	4,766	4,697
Interest Expense Related Party	60	60	72
Hotel Operating Expenses	3,323		
Land Lease Related Party			13
Land Lease	50		
Real Estate and Personal Property			
Taxes and Property Insurance	1,354	1,021	812
General and Administrative	691	567	534
Prepayment Penalties	116		
Gain on Sale of Assets			(598)
Compensation Expense related to Option Redemption	1,307		
Depreciation and Amortization	4,790	3,994	3,897
Total Expenses	16,585	10,408	9,427
Income Before Distributions to Preferred Unitholders, Minority Interest and Discontinued Operations	2,801	4,040	3,118
Distributions to Preferred Unitholders	1,195		
Income Allocated to Minority Interest	821	3,238	2,342
Income Applicable to Common Shareholders before Discontinued Operations	785	802	776
Discontinued Operations:			
Gain on Sale of Discontinued Operations		449	
Income from Discontinued Operations		41	58

Net income	$ 785	$ 1,292	$ 834
Basic Earnings Per Common Share(3)	$ 0.17	$ 0.51	$ 0.37
Diluted Earning Per Common Share	$ 0.17	$	$
Dividends declared per Common Share	$ 0.72	$ 0.72	$ 0.72

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	Year Ended December 31,		
Operating data:	**2003**	**2002**	**2001**
		(In thousands, except per share data)	
Other data:			
Adjusted Funds from Operations[4]	$ 9,151	$ 8,293	$ 7,054
Net cash provided by operating activities	$ 5,193	$ 8,177	$ 6,828
Net cash provided by (used in) investing activities	$ (58,370)	$ (345)	$ 5,513
Net cash provided by (used in) financing activities	$ 93,744	$ (7,859)	$ (12,174)
Weighted average shares outstanding			
Basic	4,614,316	2,519,820	2,275,000
Diluted	11,137,894	7,619,542	7,296,596

	Year Ended December 31, 2003	
Balance sheet data:	**Actual**	**As Adjusted[5]**
Net investment in hotel properties	$ 121,076	$ 121,076
Minority interest in Partnership	$ 38,971	$ 16,657
Shareholders equity	$ 71,460	$ 96,040
Total assets	$ 196,568	$ 198,834
Total debt	$ 71,837	$ 71,837

(1) Represents initial fixed rent plus aggregate percentage rent paid by HHMLP to the Partnership pursuant to percentage leases, which payments are calculated by applying the rent provisions in the respective percentage leases to the historical room revenues.

(2) Represents initial fixed rent paid by the lessee to the 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 basic earnings per share computed in accordance with FAS No. 128.

(4) 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 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 after adjustments for unconsolidated partnerships and joint ventures. We also adjust FFO for preferred share distributions to present FFO applicable to the common shares. In addition, we have adjusted FFO to exclude non-recurring prepayment penalties and a non-recurring compensation expense in 2003 related to redemption of outstanding stock options (which are described above). Due to the nature of those non-recurring items, we believe that excluding them from the Adjusted FFO calculation presents a more transparent measure of our underlying operations. Neither FFO nor Adjusted FFO represents 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 and Adjusted FFO a meaningful, additional measure of operating performance because it reflects the funds generated from our operations, 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 or Adjusted FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the calculations used by such REITs. The following table reconciles FFO and Adjusted FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods.

(5) As adjusted to reflect the issuances of common shares and other transactions described under the heading Capitalization in this prospectus supplement.

	Year Ended December 31,		
FFO reconciliation	**2003**	**2002**	**2001**
		(dollars in thousands)	
Net Income	$ 785	$ 1,292	$ 834
Less: Gain on Sale of Assets		(449)	(598)
Add:			
Income Allocated to Minority Interest	821	3,238	2,342
Distributions to Preferred Unitholders	1,195		
Depreciation and Amortization	4,790	4,212	4,476
Adjustments for Unconsolidated Joint Ventures	137		

FFO Applicable to Common Shares	$ 7,728	$ 8,293	$ 7,054
Non Recurring: Prepayment Penalties	116		
Non Recurring: Compensation Expense Related to Option Redemption	1,307		
Adjusted FFO Applicable to Common Shares	$ 9,151	$ 8,293	$ 7,054

Risk factors

An investment in our common shares involves a high degree of risk. You should carefully consider the risk factors described below and all other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If any of the following risks actually occur, our business, financial condition operating results or cash flow could be harmed. As a result, the trading price of our common shares could decline, and you may lose all or part of your investment.

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 are attempting 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 or other payment in respect of securities issued by us.

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

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 securities offerings 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 (excluding net capital gains) 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.

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Risk factors

We own a limited number of hotels and significant adverse changes at one hotel may impact our lessees ability to pay rent and our ability to make distributions to shareholders.

As of December 31, 2003, our portfolio consisted of 22 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.

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 hotels are located in Pennsylvania. Some of our other hotels are clustered in metropolitan areas, such as metropolitan New York and 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 December 31, 2003, we had debt outstanding of $71.8 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. As of March 31, 2004, eight 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, twelve 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

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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 eight of our hotels, incurred a net loss of $1,280,000 for the year ended December 31, 2003, a net loss of $671,000 for the year ended December 31, 2002, and a net loss of $1,104,000 for the year ended December 31, 2001, and HHMLP had a partners deficit of $1,107,000 as of December 31, 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.

Transition to TRS structure may result in a decrease in lease revenue.

During the years ended December 31, 2003, 2002 and 2001, certain hotels owned by us were under fixed lease agreements with HHMLP. The payments received from some of these fixed leases exceeded the payments that we estimate would have been received had the hotels been leased directly to our TRS. As the leases from these hotels expire, they will be released to our TRS, and we may experience a decline in the revenue generated by these hotels.

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.

As of December 31, 2003, the following officers and trustees owned 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.

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.

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. Our officers and trustees own an

approximately 13.46% 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

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 common shares, by any person. Generally, 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 common shares might receive a premium for their 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 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 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 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 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 common shares or preferred shares that have preference rights over the 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 common shares or otherwise not be in the best interest of holders of 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 dividends 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 manner designed to enable us 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 REIT 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:

- Ø 85% of our REIT ordinary income for that year;
- Ø 95% of our REIT capital gain net income for that year; and
- Ø 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 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 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

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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 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 intense.

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.

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Risk factors

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, our lessees or HHMLP 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 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, our lessees and HHMLP 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

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

Prior to this offering, there has been limited trading volume for our common shares, and we cannot assure you that an active trading market for the 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, the market for our shares may be volatile and an investor may be unable to liquidate an investment in our common shares at the price or in the time period desired. We cannot assure you that the price at which the shares of 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 underwriter.

Adjustments to the purchase price to our hotels may lead to 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 common shares at such time will experience dilution.

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

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including 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 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.

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

In addition to the common shares CNL is selling in this offering, CNL may elect to exchange its interest in its joint venture with us for up to 1,192,141 additional common shares. To the extent CNL funds additional capital to us or our joint venture, the number of common shares

issuable upon such exchange will increase. Furthermore, there are 2,842,437 outstanding limited partnership units in our operating partnership (other than the Series A Convertible Preferred Units) which currently are redeemable for common shares. Upon the exchange of CNL s joint venture interest or the redemption of limited partnership units, the common shares received therefor may be sold in the public market pursuant to shelf registration statements that we have filed or may be obligated to file, or pursuant to any available exemptions from registration. Sales of a substantial number of common shares, or the perception that such sales could occur, could adversely affect prevailing market prices of the common shares.

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 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 common shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common shares could decrease because potential investors may require a higher dividend yield on our 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 supplement and the accompanying prospectus, contain 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 will not receive any proceeds from the sale of 2,500,000 (or 2,816,460 if the underwriter exercises its over-allotment option in full) common shares to be sold by CNL in this offering.

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Capitalization

The following table sets forth the capitalization of Hersha Hospitality Trust as of December 31, 2003:

- Ø on an actual basis; and
- Ø on an as adjusted basis to give effect to:
  - 75,714 common shares issued upon conversion of options on January 4, 2004 resulting in net proceeds of $454;
  - 590 common shares issued as part of our dividend reinvestment plan on January 16, 2004 with an aggregate value of $6;
  - 183,000 common shares issued upon conversion of the warrants on January 25, 2004 resulting in net proceeds of $1,812;
  - 957,286 common shares issued upon conversion of limited partnership units on March 5, 2004 with an aggregate book value of $5,514;
  - CNL s exchange of 190,266 Series A Preferred Unit into 2,816,460 of common shares on April 16, 2004; and
  - the increase in minority interest and decrease in paid-in capital of $280 which results from the above transactions.

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 in our Annual Report on Form 10-K for the year ended December 31, 2003. See How To Obtain More Information in the accompanying prospectus.

	As of December 31, 2003	
	Actual	As adjusted
	(dollars in thousands)	
Cash	$ 40,707	$ 42,973
Debt:		
Lines of credit	$	$
Mortgages payable	70,837	70,837
Other notes payable	1,000	1,000

Total debt	71,837	71,837
Minority interest	38,971	16,657
Shareholders equity(1):		
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, 12,355,075 shares issued and outstanding, 16,388,125 shares issued and outstanding, as adjusted	124	164
Class B common shares, $0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	76,217	101,036
Additional paid-in capital options	279	
Distributions in excess	(5,160)	(5,160)
Total shareholders equity	71,460	96,040
Total capitalization	$ 182,268	$ 184,534

(1) Does not include:

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

2,842,437 common shares issuable upon redemption of outstanding common limited partnership units in our operating partnership which are currently redeemable.

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Distributions and price range of common shares

Since our initial public offering in January of 1999, we have made 19 consecutive quarterly distributions to holders of the common shares of $0.18 per share, which annualizes to $0.72 per share. We have also paid an equivalent distribution to holders of 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 Series A Convertible Preferred Units rank senior to all common limited partnership units in our operating partnership, including our general partner units, and all 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 common shares are effectively subordinate to the distribution rights of the Series A Convertible Preferred Units.

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 common shares trade on the American Stock Exchange under the symbol HT. As of March 31, 2004, there were 13,571,665 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 common shares as reported by the American Stock Exchange and dividends declared on our common shares for each of the quarters indicated.

	Price Range		Cash Dividend
Year ended December 31, 2004	**High**	**Low**	**Per Share**
Seond quarter (through April 16, 2004)	$ 11.07	$ 8.99	
First quarter	$ 11.75	$ 9.84	$ 0.18
	High	**Low**	**Per Share**
Year ended December 31, 2003			
Fourth quarter	$ 10.10	$ 8.41	$ 0.18
Third quarter	$ 9.10	$ 7.93	$ 0.18
Second quarter	$ 8.25	$ 6.54	$ 0.18
First quarter	$ 7.30	$ 6.40	$ 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

Year ended December 31, 2001	**High**	**Low**	**Per Share**
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	$ 6.06	$ 5.50	$ 0.18

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Security ownership of certain beneficial owners and management and related stockholder matters

The following table sets forth certain information regarding the beneficial ownership of common shares by (i) each shareholder known by us to beneficially own more than five percent of our common shares, (ii) each of our trustees and executive officers, and (iii) all of our trustees and executive officers as a group, each as of March 31, 2004. Unless otherwise indicated, all shares are owned directly, and the indicated person has sole voting and investment power. The number of outstanding common shares at March 31, 2004 was 13,571,665. This table assumes that all limited partnership units held by such person or group of persons are redeemed for common shares or, in the case of CNL, exchanged for common shares. The total number of shares outstanding used in calculating the percentage assumes that none of the limited partnership units held by other persons are redeemed for common shares. Limited partnership units generally are not redeemable for common shares until at least one year following the issuance of such units.

Name of Beneficial Owner	Number of Shares	Percent of Class
Persons Believed to Own In Excess of 5% of Common Shares		
CNL Hospitality Partners, L.P. (1) CNL Center at City Commons 450 South Orange Avenue Orlando, Florida 32801-3336	4,008,601	22.80%
Deutsche Bank AG and RREEF America, L.L.C. (2) Taunusanlage 12, D-60325 Frankfurt am Main Federal Republic of Germany	1,281,500	9.44%
Security Capital Research & Management Incorporated (3) 11 South LaSalle Street, 2nd Floor, Chicago, Illinois 60603	831,300	6.13%
Delaware Management Holdings (4) 2005 Market Street Philadelphia PA 19103	797,800	5.88%
K. G. Redding & Associates, LLC (5) One North Wacker Drive, Suite 4343 Chicago, IL 60606-2841	1,645,100	12.12%
Officers and Trustees:		

Hasu P. Shah (6)	243,837	1.76%
Neil H. Shah (6)	690,905	4.84%
Jay H. Shah (6)	742,719	5.19%
K.D. Patel (6)	282,393	2.04%
Kiran P. Patel (6)	46,969	*
David L. Desfor (7)	90,786	*
Ashish R. Parikh	2,500	*
John M. Sabin	500	*
Thomas S. Capello	7,400	*
Donald J. Landry		
Michael A. Leven	2,500	*
William Lehr Jr.	1,610	*
Shreenathji Enterprises, Ltd. (6)(8)	15,454	*
Total for all officers and trustees (12 persons) (9):	2,127,573	13.46%

footnotes on following page

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Security ownership of certain beneficial owners and management and related stockholder matters

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** Less than 1%*

(1) Reflects information on a Schedule 13D filed by CNL Hospitality Partners, L.P., CNL Hospitality GP Corp., and CNL Hospitality Properties, Inc. on September 5, 2003. CNL has sole dispositive and voting power over all 4,008,601 shares, which consists of (a) 2,816,460 common shares issuable upon exchange of 190,266 Series A Preferred Partnership Units in our operating partnership and (b) 1,192,141 common shares issuable upon exchange of CNL s interest in our joint venture. CNL may only vote its shares to the extent they do not exceed 40% of the total issued and outstanding common shares. Upon completion of this offering, CNL will only own the interest in our joint venture.

(2) Based solely on Amendment No. 1 to Schedule 13G filed on February 26, 2004.

(3) Based solely on Schedule 13G filed on February 17, 2004.

(4) Based solely on Schedule 13G filed on February 9, 2004.

(5) Bases solely on Schedule 13G filed on January 14, 2004.

(6) Represents limited partnership units owned by such person.

(7) Represents 1,800 Common shares and 88,986 common limited participating units owned by Mr. Desfor.

(8) Shreenathji Enterprises, Ltd. (SEL) is a limited partnership owned by Hasu P. Shah (12%), Kiran P. Patel (13%), Bharat C. Mehta (15%), Nayana Ghandi (15%), Kanti D. Patel (15%), Jay H. Shah (15%) and Neil H. Shah (15%). SEL acquired these Units in exchange for contributions of hotel properties to the Partnership.

(9) Includes the limited partnership units owned by Shreenathji Enterprises, Ltd.

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Selling shareholder

This prospectus supplement relates to the offer and sale of 2,816,460 (including the shares subject to the underwriter s over-allotment option) common shares by CNL. CNL acquired the 2,816,460 common shares covered by this prospectus supplement upon exchange of 190,266 Series A preferred units of limited partnership interest in our operating partnership in accordance with the operating partnership s partnership agreement based on an exchange price of $6.7555 per common share.

CNL also owns an interest in our joint venture with CNL, HT/CNL Metro Hotels, that is exchangeable for up to 1,192,141 common shares. This prospectus does not relate to any common shares issuable to CNL upon exchange of this joint venture interest.

The following table shows the number of common shares beneficially owned by CNL before and after this offering assuming the exercise by the underwriter of its over-allotment option in full and the full exchange of CNL s interest in our joint venture for common shares:

	Common Shares Owned Prior to this Offering		Shares Being Offered	Common Shares Owned After this Offering	
Selling Shareholder	**Number**	**% of Class**		**Number**	**% of Class**
CNL Hospitality Partners, L.P.	4,008,601	22.8%	2,816,460	1,192,141	6.8%

See CNL Strategic Alliance in the accompanying prospectus for more information about a relationship with CNL.

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Underwriting

The selling shareholder is offering the common shares described in this prospectus supplement through UBS Securities LLC**.** We and the selling shareholder have entered into an underwriting agreement with the underwriter. Subject to the terms and conditions of the underwriting agreement, the underwriter has agreed to purchase 2,500,000 of our common shares from the selling shareholder.

The underwriting agreement provides that the underwriter must buy all of the shares if it buys any of them. However, the underwriter is not required to take or pay for the shares covered by the underwriter s over-allotment option described below.

Our common shares are offered subject to a number of conditions, including:

Ø receipt and acceptance of our common shares from the selling shareholder by the underwriter; and

Ø the underwriter s right to reject orders in whole or in part.

In connection with this offering, the underwriter and certain securities dealers may distribute prospectuses electronically.

We and the selling shareholder have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act. If we or the selling shareholder are unable to provide this indemnification, we and the selling shareholder will contribute to payments the underwriter may be required to make in respect of those liabilities.

OVER-ALLOTMENT OPTION

The selling shareholder has granted the underwriter an option to buy up to an aggregate of 316,460 additional common shares. The underwriter may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriter has 30 days from the date of this prospectus supplement to exercise this option. If the underwriter exercises the option, it will purchase up to 316,460 additional shares.

COMMISSIONS AND DISCOUNTS

Shares sold by the underwriter to the public will initially be offered at the initial offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriter to securities dealers may be sold at a discount of up to $ per share from the initial public

offering price. Any of these securities dealers may resell any shares purchased from the underwriter to other brokers or dealers at a discount of up to $ per share from the initial public offering price. If all the shares are not sold at the initial public offering price, the underwriter may change the offering price and the other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriter. Upon execution of the underwriting agreement, the underwriter will be obligated to purchase the shares at the prices and upon the terms stated therein, and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms.

The following table shows the per share and total underwriting discounts and commissions CNL will pay to the to the underwriter assuming both no exercise and full exercise of the underwriter s option to purchase up to an additional 316,460 shares.

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Underwriting

Paid by CNL	No exercise	Exercise
Per Share	$	$
Total	$	$

We will pay the offering expenses of the selling shareholder, other than the underwriting discounts and commissions. We estimate these expenses will be approximately $.

NO SALES OF SIMILAR SECURITIES

We, our executive officers and directors and the selling shareholder have entered into lock-up agreements with UBS Securities LLC. Under these agreements, we and each of these persons may not, without the prior written approval of UBS Securities LLC, subject to certain permitted exceptions, offer, sell, contract to sell or otherwise dispose of or hedge our common shares or securities convertible into or exercisable or exchangeable for our common shares. These restrictions will be in effect for a period of 90 days after the date of this prospectus supplement. At any time and without public notice, UBS Securities LLC may in its sole discretion, release all or some of the securities from these lock-up agreements.

AMERICAN STOCK EXCHANGE QUOTATION

Our common shares are listed on the American Stock Exchange under the symbol HT.

PRICE STABILIZATION, SHORT POSITIONS

In connection with this offering, the underwriter may engage in activities that stabilize, maintain or otherwise affect the price of our common shares including:

Ø stabilizing transactions;

Ø short sales;

Ø purchases to cover positions created by short sales;

Ø imposition of penalty bids; and

Ø syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common shares while this offering is in progress. These transactions may also include making short sales of our common shares, which involves the sale by the underwriter of a greater number of shares than it is required to purchase in this offering, and purchasing common shares on the open market to cover positions created by short sales. Short sales may be covered shorts, which are short positions in an amount not greater than the underwriter s over allotment option referred to above, or may be naked shorts, which are short positions in excess of that amount.

The underwriter must close out any covered short position by either exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option.

Naked short sales are sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned there may be downward pressure on the price of shares in the open market after pricing that could adversely affect investors who purchase in this offering.

The underwriter also may impose a penalty bid. This occurs when a particular underwriter repays to such underwriter a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

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UNDERWRITING

As a result of these activities, the price of our common shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriter at any time. The underwriter may carry out these transactions on the American Stock Exchange, in the over-the counter market or otherwise.

AFFILIATIONS

The underwriter has provided financial advisory and investment banking services to us for which it receives customary fees.

The underwriter and its affiliates may from time to time in the future engage in transactions with us and perform services for us in the ordinary course of their business.

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Experts

Our consolidated balance sheet as of December 31, 2003 and our consolidated statements of operations, cash flows and shareholders equity for the year ended December 31, 2003 incorporated by reference in this prospectus supplement and the accompanying prospectus supplement, have been audited by Reznick Fedder & Silverman P.C., independent certified public accountants, whose report is incorporated by reference in this prospectus supplement and the accompanying prospectus supplement and given upon their authority as experts in accounting and auditing. The balance sheet of Hersha Hospitality Management L.P. as of December 31, 2003, and the related statements of operations, partners equity (deficit), and cash flows for the year ended December 31, 2003, incorporated by reference in this prospectus supplement and the accompanying prospectus supplement have been audited by Reznick Fedder & Sliverman, P.C., independent certified public accountants, whose report is incorporated by reference in this prospectus and given upon their authority as experts in accounting and auditing.

Our consolidated balance sheet as of December 31, 2002 and our consolidated statements of operations, cash flows and shareholders equity for each of the years ended December 31, 2002 and 2001 incorporated by reference in this prospectus supplement and the accompanying prospectus supplement, have been audited by Moore Stephens, P.C., independent certified public accountants, whose reports are incorporated by reference in this prospectus supplement and the accompanying prospectus supplement and given upon their authority as experts in accounting and auditing. The consolidated balance sheet of Hersha Hospitality Management L.P. as of December 31, 2002, and the related statements of operations, partners equity (deficit), and cash flows for each of the two years in the period ended December 31, 2002, incorporated by reference in this prospectus supplement and the accompanying prospectus supplement have been audited by Moore Stephens, P.C., independent certified public accountants, whose reports are incorporated by reference in this prospectus and given upon their authority as experts in accounting and auditing.

Reports to shareholders

We furnish our shareholders with annual reports containing consolidated financial statements audited by our independent certified public accountants.

Legal matters

Certain legal matters in connection with this offering will be passed upon for us by Hunton & Williams LLP. In addition, the summary of legal matters contained in the section of the accompanying prospectus under the heading Federal Income Tax Consequences of Our Status as a REIT is based on the opinion of Hunton & Williams LLP. Certain legal matters in connection with this offering will be passed upon for the underwriter by Clifford Chance US LLP.

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Hersha Hospitality Trust

2,816,460 Common Shares of Beneficial Interest

This prospectus relates to up to 2,816,460 common shares of beneficial interest which may be offered from time to time by CNL Hospitality Partners, L.P., or CNL.

We may issue the 2,816,460 common shares covered by this prospectus to CNL to the extent that it exchanges Series A preferred units of limited partnership interest in our operating partnership, Hersha Hospitality Limited Partnership, for such common shares in accordance with the operating partnership s partnership agreement. CNL currently owns 190,266 Series A preferred units of limited partnership interest in our operating partnership, each of which is exchangeable at any time, at the option of the holder, for (among other securities) approximately 14.8 common shares, based on an initial exchange price of $6.7555 per common share. We will not receive any of the proceeds from sales of common shares issued upon exchange of the Series A Preferred Units.

The registration of the common shares issuable upon exchange of Series A preferred units does not necessarily mean that any of them will be issued by us. Common shares resold by CNL under this prospectus may be offered and sold from time to time in open market or privately-negotiated transactions that may involve underwriters, brokers or dealers.

Our common shares are listed on the American Stock Exchange under the symbol HT. The last reported sale price of our common shares on the American Stock Exchange on March 26, 2004 was $10.74 per share.

Investing in our common shares involves risks. See Risk Factors beginning on page 5 for certain factors that you should consider before purchasing our common shares.

In part so that we can continue to qualify as a real estate investment trust under the federal income tax laws, our declaration of trust generally does not permit anyone to own more than 9.9% of our outstanding common shares.

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.

The date of this prospectus March 26, 2004.

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You should rely only on the information contained or incorporated by reference in this prospectus and any applicable prospectus supplement. We have not authorized anyone else to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any state where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, as well as the information we previously filed with the SEC and incorporated by reference, is accurate only as of the date of the documents containing the information.

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How to obtain more information

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements, or other information we file with the SEC at its public reference room in Washington, D.C. (450 Fifth Street, N.W. 20549). Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings are also available to the public on the internet, through a database maintained by the SEC at http://www.sec.gov. In addition, you can inspect and copy reports, proxy statements and other information concerning Hersha Hospitality Trust at the offices of the American Stock Exchange, Inc., 86 Trinity Place, New York, New York 10006, on which our common shares (symbol: HT) are listed.

Incorporation of information filed with the SEC

The SEC allows us to incorporate by reference into this prospectus the information we file with the SEC, which means that we can disclose important business, financial and other information to you by referring you to other documents separately filed with the SEC. All information incorporated by reference is part of this prospectus, unless and until that information is updated and superseded by the information contained in this prospectus or any information incorporated later. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), prior to completion of this offering.

We incorporate by reference our Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

We also incorporate by reference all future filings we make with the SEC between the date of this prospectus and the date upon which we sell all of the securities we offer with this prospectus and any applicable supplement.

You may obtain copies of these documents at no cost by requesting them from us in writing at the following address: Hersha Hospitality Trust, 148 Sheraton Drive, Box A, New Cumberland, PA 17070, telephone (717) 770-2405.

About this prospectus

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended. This prospectus and any accompanying prospectus supplement do not contain all of the information included in the registration statement. For further information, we refer you to the registration statement, including the exhibits. Statements contained in this prospectus and any accompanying prospectus supplement about the provisions or contents of any agreement or other document are not necessarily complete. If the rules and regulations of the Securities and Exchange Commission require that such agreement or document be filed as an exhibit to the registration statement, please see such agreement or document for a complete description of these matters. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of such

prospectus or prospectus supplement.

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Forward looking information

This prospectus and the information incorporated by reference into it contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words believes, anticipates, expects, estimates, intends, plans, projects, will continue and word import. We have based these forward-looking statements on our current expectations and projections about future events and trends affecting the financial condition of our business, which may prove to be incorrect. These forward-looking statements relate to future events and our future financial performance, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. You should specifically consider the factors identified under the caption Risk Factors and the various other factors identified in or incorporated by reference into this prospectus and any other documents filed by us with the SEC that could cause actual results to differ materially from our forward-looking statements.

Except to the extent required by applicable law, we undertake no obligation to, and do not intend to, update any forward-looking statement or the Risk Factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments. There are a number of risk factors associated with the conduct of our business, and the risks discussed in the Risk Factors section of this prospectus may not be exhaustive. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. All forward-looking statements should be read with caution.

Certain definitions

Unless otherwise indicated, the terms Hersha, we, us, our and our company refer to Hersha Hospitality Trust and its subsidiaries, including Hersha Hospitality Limited Partnership.

All brand names, trademarks and service marks appearing in this prospectus are the property of their respective owners. This prospectus supplement contains registered trademarks owned or licensed to companies other than us, including but not limited to Comfort Inn®, Comfort Suites®, Courtyard® by Marriott®, Doubletree Suites®, Fairfield Inn® by Marriott®, Hampton Inn®, Hilton Garden Inn®, Holiday Inn®, Homewood Suites by Hilton®, Mainstay Suites®, Residence Inn® by Marriott® and Sleep Inn®, none of which, in any way, are participating in or endorsing this offering and shall not in any way be deemed an issuer or underwriter of the securities issued under this prospectus, and shall not have any liability or responsibility for any financial statements or other financial information contained or incorporated by reference in this prospectus.

Our company

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. We focus primarily on owning and operating high quality, mid-scale limited service hotels in established markets in the Eastern United States. Our primary strategy is to continue to acquire high quality, mid-scale hotels in metropolitan markets with high barriers to entry in the Northeastern United States. As of December 31, 2003, our portfolio consisted of 22 hotels with a total of 2,169 rooms located in Pennsylvania, New York, Maryland, Georgia and New Jersey, 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 twelve 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. 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.

We are taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Code. 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.

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OUR COMPANY

The following chart shows the structure of our company as of December 31, 2003:

(1) As of March 18, 2004, our public shareholders owned 13,571,665 common shares.
(2) Represents the general partner interest in our operating partnership.
(3) Our officers and trustees own in the aggregate 2,111,263 common limited partnership units of our operating partnership, which are redeemable for an equal number of common shares.
(4) Third party investors in our operating partnership own 731,174 common limited partnership units, which are redeemable for an equal number of common shares.
(5) 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 common shares.

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Risk factors

Before you invest in our securities, you should carefully consider the following risks, together with the other information included in this prospectus, any prospectus supplement and the information incorporated by reference. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our securities could decline, and you may lose all or part of your investment.

An investment in our securities 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 are attempting 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 or other payment in respect of securities issued by us.

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

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 securities offerings 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

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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 hotel may impact our lessees ability to pay rent and our ability to make distributions to shareholders.

As of December 31, 2003, our portfolio consisted of 22 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.

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 22 hotels are located in Pennsylvania. Some of our other hotels are clustered in metropolitan areas, such as metropolitan New York and 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 December 31, 2003, we had debt outstanding of $71.8 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.

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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. As of January 26, 2003, eight 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, twelve 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 eight of our hotels, incurred a net loss of $1,280,000 for the year ended December 31, 2003, a net loss of $671,000 for the year ended December 31, 2002, and a net loss of $1,104,000 for the year ended December 31, 2001, and HHMLP had a partners deficit of $1,107,000 as of December 31, 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.

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.

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.

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. Some of our officers and trustees own an approximately 13.46% 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.

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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 operating partnership and its interest in our joint venture owns approximately 22.8% of our common shares on a fully-diluted basis. In addition, CNL would be able to acquire an additional 5% of our common shares on a fully-diluted basis upon exchange of . 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 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;
  - 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 Preferred Units, 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 common shares on a fully diluted basis, a majority of the Series A 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

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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 common shares, by any person. Generally, 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 common shares might receive a premium for their 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 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 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 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:

- Ø 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,

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- Ø cause us to issue additional authorized but unissued common shares or preferred shares and
- Ø 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 common shares or preferred shares that have preference rights over the 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 common shares or otherwise not be in the best interest of holders of common shares.

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

In the future, we may attempt to increase our capital resources by making additional offerings of debt or equity securities, including 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 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.

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

At any time, CNL may elect to exchange its Series A Convertible Preferred Units for up to 2,816,460 common shares and exchange its interest in their joint venture with us for up to 1,192,141 additional common shares. To the extent CNL funds additional capital to us or our joint venture, the number of common shares issuable upon such exchange will increase. Furthermore, there are 2,842,437 outstanding limited partnership units in our operating partnership (other than the Series A Convertible Preferred Units) which currently are redeemable for common shares. Upon the exchange of the Series A Convertible Preferred Units or the redemption of common limited partnership units, the 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 common shares, or the perception that such sales could occur, could adversely affect prevailing market prices of the common shares.

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

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

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 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 REIT 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:

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

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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 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 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 common shares.

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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, our lessees or HHMLP 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 improvements that the trustees determine are too expensive

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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, our lessees and HHMLP 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.

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 common shares at such time will experience dilution.

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.

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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.

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Use of proceeds

We will not receive any of the proceeds from the sale of the common shares offered by this prospectus.

Selling shareholder

This prospectus relates to up to 2,816,460 common shares of beneficial interest which may be offered from time to time by CNL. We may issue the 2,816,460 common shares covered by this prospectus to CNL to the extent that it exchanges Series A preferred units of limited partnership interest in our operating partnership for such common shares in accordance with the operating partnership s partnership agreement. CNL currently owns 190,266 Series A preferred units of limited partnership interest in our operating partnership, each of which is exchangeable at any time, at the option of the holder, for (among other securities) approximately 14.8 common shares, based on an initial exchange price of $6.7555 per common share. The exchange price is subject to anti-dilution adjustments upon the occurrence of certain events, including share splits and combinations, reclassifications, reorganizations, mergers, consolidations or asset sales, or the sale of common shares or operating partnership units below 85% of the then effective conversion or exchange price (initially $5.74).

CNL also owns an interest in our joint venture with CNL, HT/CNL Metro Hotels, that is exchangeable for up to 1,192,141 common shares. This prospectus does not relate to any common shares issuable to CNL upon exchange of this joint venture interest.

At March 18, 2004, there were 13,571,665 common shares outstanding. Assuming full exchange of all CNL s Series A preferred units and joint venture interest, they would own approximately 22.80% of the outstanding common shares, or 6.8% if all of the common shares offered hereby are sold. Because CNL may exchange all, some or none of their Series A preferred units, we cannot give a definitive estimate as to the number of common shares or other equity securities that will be held by CNL after this offering.

We are obligated to file the registration statement of which this prospectus is a part pursuant to that certain Registration Rights Agreement with CNL dated April 21, 2003.

Distributions and price range of common shares

Since our initial public offering in January of 1999, we have made 18 consecutive quarterly distributions to holders of the common shares of $0.18 per share, which annualizes to $0.72 per share. We have also paid an equivalent distribution to holders of our common limited partnership units in our operating p