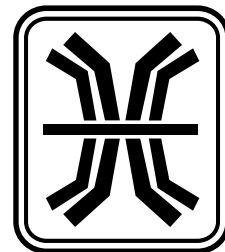


HERSHA HOSPITALITY TRUST

REAL ESTATE INVESTMENT TRUST



Ladies and Gentlemen:

Hersha Hospitality Trust (*HT*) began trading publicly on the American Stock Exchange in January 1999 with the well-defined mission of maximizing shareholder value by leveraging our management team's hotel industry expertise and delivering value consistently through fiscally responsible growth. This mission continues as the cornerstone of our strategic plans as we move into the new millennium.

In 1999 our objective was to grow Hersha through strategic hotel acquisitions, while continuing to improve the operating results of the hotels already in the portfolio. Since we began operations as a public company last year, we have selectively acquired six properties and, as of this writing, are in the process of purchasing four additional hotels. With the completion of these transactions, we will own twenty hotels and will have doubled our net asset value to over \$100 million since our 1999 initial public offering.

In the coming year, we will continue to seek out strategic acquisition opportunities for quality hotels with sturdy income streams and purchase only those hotels that meet our stringent criteria. We will focus on purchasing hotels that are immediately cash accretive and are located in central business districts, metropolitan submarkets and other areas with strong underlying demand growth and high barriers to entry. It is my belief that our strict adherence to these criteria has in the past and will continue in the coming year to enable us to maximize shareholder return on investment and set us apart from our competitors.

The last year was a year of many challenges for most all publicly traded hotel REITS and hotel companies, however, we believe that the fundamentals of the industry and our Company are intact and continue to represent value. The Company presented strong operating results for the year ending December 31, 1999 with earnings per share and funds from operations of \$0.48 and \$0.80 per diluted share, respectively. The Company also believes that the fundamentals are intact to maintain and grow its attractive dividend payout of \$0.72 per share.

The entire Hersha team is proud of its accomplishments during this past year and remains committed to maximizing value for our shareholders in 2000 and maintain this value for years to come.

Sincerely,

A handwritten signature in black ink, appearing to read 'Hasu P. Shah', with a horizontal line underneath it.

Hasu P. Shah
CEO and Chairman of the Board
March 27, 2000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITIONAL
REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

[]

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 005-55249

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

251811499
(I.R.S. Employer
Identification No.)

148 Sheraton Drive, Box A, New Cumberland, Pennsylvania
(Address of Registrant's Principal Executive Offices)

17070
(Zip Code)

Registrant's telephone number, including area code: (717) 770-2405

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Priority Class A Common Shares of Beneficial Interest, par value \$.01 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the registrant, as of March 27, 2000, was approximately \$11.7 million.

As of March 27, 2000, the number of outstanding Priority Class A Common Shares of Beneficial Interest outstanding Documents Incorporated By Reference: Portions of the 1999 Hersha Hospitality Trust Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the year covered by this Form 10-K with respect to the Annual Meeting of Shareholders to be held on May 26, 2000 are incorporated by reference into Part III hereof.

HERSHA HOSPITALITY TRUST

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ITEM 1. BUSINESS

OVERVIEW

Hersha Hospitality Trust [the "Company"] was formed in May 1998 to own initially ten hotels in Pennsylvania and to continue the hotel acquisition and development strategies of Hasu P. Shah, Chairman of the board of trustees and Chief Executive Officer of the Company. We are a self-advised Maryland real estate investment trust for federal income tax purposes. As of March 27, 2000, we owned four Holiday Inn Express® hotels, four Hampton Inn® hotels, two Holiday Inn® hotels, four Comfort Inn® hotels, one Best Western® hotel and one Clarion Suites® hotel, which contain an aggregate of 1,598 rooms.

We completed an initial public offering of two million of our Class A Priority Common Shares on January 26, 1999 at \$6.00 per share. In addition, on February 5, 1999, we sold an additional 275,000 Class A Priority Common Shares pursuant to an over allotment option granted to the underwriter in our initial public offering. Our Priority Class A Common Shares are traded on the American Stock Exchange under the symbol "HT".

We contributed substantially all of the net proceeds from our initial public offering to our operating partnership subsidiary, Hersha Hospitality Limited Partnership ["HHLP" or the "Partnership"], of which we are the sole general partner. We currently own a 35.1% partnership interest in the Partnership. Interests in the hotel properties are owned by subsidiary partnerships of HHLP. HHLP owns a 99% limited partnership interest and Hersha Hospitality, LLC ["HHLLC"], a Virginia limited liability company, owns a 1% general partnership interest in these subsidiary partnerships.

With the proceeds of our initial public offering, we caused the Partnership to acquire ten hotels [the "Initial Hotels"] in exchange for (1) 4,032,431 subordinated units of limited partnership interest in the partnership that are redeemable for the same number of Class B Common Shares with a value of approximately \$24.2 million based on the initial public offering price, and (2) the assumption of approximately \$23.3 million of indebtedness of which approximately \$6.1 million was repaid immediately after the acquisition of the hotels. Since the completion of the initial public offering we have issued an additional 173,539 units in connection with the acquisition of the Hampton Inn, Danville, PA.

We have acquired seven of the Initial Hotels and three other hotels, acquired subsequent to the commencement of operations, for prices that will be adjusted at either December 31, 1999, 2000 or 2001. The purchase price adjustments are performed by applying a pricing methodology consistent with the pricing of the hotels at the commencement of operations. Utilizing this pricing methodology, the hotels' cash flows are adjusted for the year ended on the adjustment dates in order to calculate a value for the respective hotel based upon a 12% return criteria. All such adjustments must be approved by a majority of our independent trustees.

If the repricing produces a higher aggregate price for the hotels, sellers (who are affiliated with the officers of our Company) will receive an additional number of units of limited partnership interest that equals the increase in value plus the value of any distributions that would have been made with respect to such units if such units had been issued at the time of the acquisition of such hotels. If, however, the repricing produces a lower aggregate value for such hotels, the sellers will forfeit to the Partnership that number of units of limited partnership interest that equals the decrease in value plus the value of any distributions made with respect to such units. Any adjustments arising from the issuance or forfeiture of shares will adjust the cost of the property acquired based on the fair value of the shares on the date of adjustment. Based upon unaudited results for the period ending December 31, 1999, the Partnership anticipates issuing additional units for the Holiday Inn, Milesburg, the Holiday Inn Express, Harrisburg and the Comfort Inn, Denver, PA.

In order for us to qualify as a REIT, we cannot operate hotels. Therefore, the majority of our hotels are leased to Hersha Hospitality Management, L.P. [the "Lessee"]. The Lessee is owned by Mr. Hasu P. Shah, Mr. Bharat C. Mehta, Mr. Kanti D. Patel, Mr. Rajendra O. Gandhi, Mr. Kiran P. Patel and certain other affiliates [the "Hersha Affiliates"] some of whom have ownership interests in the Partnership. The hotels are leased to the Lessee pursuant to percentage leases [the "Percentage Leases"] based in part on the revenues at such hotels. We structured each percentage lease to provide us with anticipated rents at least equal to 12% of the purchase price paid for the hotel, net of (1) property and casualty insurance premiums, (2) real estate and personal property taxes, and (3) a reserve for furniture, fixtures and equipment equal to 4% (6% for the Holiday Inn Hotel and Conference Center, Harrisburg, PA, and Holiday Inn, Milesburg, PA) of gross revenues per quarter at the hotel. This pro forma return is based on certain assumptions and historical revenues for the hotels (including projected revenues for the newly-developed and newly-renovated hotels) and no assurance can be given that future revenues for the hotels will be consistent with prior performance or the estimates. Until the purchase price adjustment dates, the rent on the newly-developed and newly-renovated hotels will be fixed. See Item 2. Properties. After the adjustment dates, rent will be computed based on a percentage of revenues of those hotels. The Percentage Leases will have initial terms of five years and may be extended for two additional five-year terms at the option of the Lessee.

On August 11, 1999 we purchased, from the Hersha Affiliates, all the partnership interests in 3744 Associates, a Pennsylvania limited partnership and through the ownership of 3744 Associates, a 60-room Comfort Inn hotel located near the John F. Kennedy International Airport in Jamaica, New York. The Comfort Inn was newly constructed and commenced operations on August 12, 1999.

On September 1, 1999 we purchased, from the Hersha Affiliates, all the partnership interests in 2844 Associates, a Pennsylvania limited partnership and, through the ownership of 2844 Associates, a 77-room Clarion Inn & Suites hotel located in Harrisburg, Pennsylvania. We also purchased the 72-room Hampton Inn hotel located in Danville, Pennsylvania from 3544 Associates.

The purchase prices for the Comfort Inn, Hampton Inn and Clarion Inn & Suites are \$5.5 million, \$3.6 million and \$2.7 million, respectively. The purchase price valuations for the properties acquired were based upon the rent to be paid by the Lessee under Percentage Leases. The purchase prices of these hotels will be adjusted on December 31, 2001 by applying the initial pricing methodology to such hotels' cash flows in a manner similar to that of the other hotels purchased by HHLP from the Hersha Affiliates. The adjustments must be approved by a majority of the Company's independent trustees.

On February 25, 2000, our Board of Trustees approved the purchase of three hotel properties from the Hersha Affiliates. The acquisitions will be effective as of January 1, 2000. The hotels acquired include a 110 room Hampton Inn & Suites located in Hershey, Pennsylvania, a 107 room full service Best Western located in Indiana, Pennsylvania and a 76 room Comfort Inn located in McHenry, Maryland. The aggregate purchase price of the three hotels was \$11.5 million and was funded through our Line of Credit, the assumption of loans of \$7.0 million and an additional loan of \$2.0 million. The prices paid for these hotels will be adjusted on December 31, 2001 based upon the pricing methodology discussed previously. The adjustments must be approved by a majority of the Company's independent trustees.

GROWTH STRATEGY

We seek to enhance shareholder value by increasing amounts available for distribution to our shareholders by (1) acquiring additional hotels that meet our investment criteria and (2) participating in any increased revenue from our hotels through our Percentage Leases.

Acquisition Strategy

We focus on limited service and full service hotels with strong, national franchise affiliations in the upper-economy and mid-scale market segments, or hotels with the potential to obtain such franchises. In particular, we consider acquiring limited service hotels such as Comfort Inn®, Best Western®, Days Inn®, Fairfield Inn®, Hilton Garden Inn®, Hampton Inn®, Holiday Inn® and Holiday Inn Express® hotels, and limited service extended-stay hotels such as Comfort Suites®, Homewood Suites®, Main Stay Suites® and Residence Inn by Marriott® hotels.

In addition to the direct acquisition of hotels, we may make investments in hotels through joint ventures with strategic partners or through equity contributions, sales and leasebacks, or secured loans. We identify acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our extensive due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value.

Investment Criteria

We focus predominantly on potential acquisitions in the eastern United States. Such investments may include hotels newly developed by certain of our affiliates. Pursuant to an option agreement, we have an option to acquire any hotels owned or developed in the future by certain of our affiliates within 15 miles of any hotels that we own for two years after acquisition or development. Our acquisition policy is to acquire hotels for which we expect to receive rents at least equal to 12% of the purchase price paid for each hotel, net of (1) property and casualty insurance premiums, (2) real estate and personal property taxes, and (3) a reserve for furniture, fixtures and equipment equal to 4% (6% in the case of full-service hotels) of annual gross revenues at each hotel. Our board of trustees, however, may change our acquisition policy at any time without the approval of our shareholders. We intend to acquire hotels that meet one or more of the following criteria:

- * nationally-franchised hotels in locations with a relatively high demand for rooms, with a relatively low supply of competing hotels and with significant barriers to entry in major metropolitan and suburban areas;
- * poorly managed hotels, which could benefit from new management, new marketing strategy and association with a national franchisor;
- * hotels in a deteriorated physical condition that could benefit significantly from renovations; and
- * hotels in attractive locations that we believe could benefit significantly by changing franchises to a superior brand.

We intend to lease hotels that we acquire to operators, including the current Lessee of all our hotels, Hersha Hospitality Management, L.P., as well as operators unaffiliated with the Lessee. Future leases with our current Lessee generally will be similar to the Percentage Leases. We will negotiate the terms and provisions of each future lease, depending on the purchase price paid, economic conditions and other factors deemed relevant at the time.

Financing

We may finance additional investments in hotels, in whole or in part, with undistributed cash, subsequent issuances of Priority Class A Common Shares or other securities, or borrowings. Our debt policy is to limit consolidated indebtedness to less than 67% of the aggregate purchase prices paid for the hotels in which we invest. Our board of trustees, however, may change the debt policy without the approval of our shareholders. The aggregate purchase prices for our thirteen hotels, owned as of December 31, 1999, was approximately \$59.5 million, and our indebtedness at December 31, 1999 was \$24.8 million, which represents approximately 41.7% of the aggregate purchase price for our hotels.

In February 2000, we entered into a portfolio refinancing of seven of our hotel properties for \$22.05 million. Outstanding borrowings under the refinancing bear interest at a rate of 8.94% and have a total loan amortization period of 23.5 years. The first eighteen months of the loan is structured to be interest only financing with no principal payoff during the period. The loan proceeds will be utilized to payoff existing loans, to payoff limited partnership accruals and will also be utilized for acquisitions of hotel properties.

Internal Growth Strategy

Our Percentage Leases are designed to allow us to participate in growth in revenues at our hotels. Our Percentage Leases generally provide that the Lessee will pay in each calendar quarter the greater of base rent or percentage rent. The percentage rent for each hotel is comprised of (1) a percentage of room revenues up to a threshold, (2) a higher percentage of room revenues in excess of that threshold but not more than a incentive threshold, (3) a lower percentage of room revenues in excess of that incentive threshold and (4) a percentage of revenues other than room revenues. The threshold is designed to provide incentive to the Lessee to generate higher revenues at each hotel by lowering the percentage of revenue paid as percentage rent once room revenues reach certain levels. In the case of the newly-developed and newly-renovated hotels, the Lessee will pay fixed rent until the adjustment date, after which the Lessee will pay the greater of base rent or percentage rent.

Property Management

In order for the Company to qualify as a REIT, neither the Company, the Partnership nor the subsidiary partnerships can operate hotels. Therefore, each of the hotels is leased to the Lessee under Percentage Leases. The Lessee also manages certain other properties owned by the Hersha Affiliates that are not owned by the Partnership. The Lessee commenced operations on January 1, 1999 and as of December 31, 1999 leases 13 hotel properties from the Partnership and also manages other properties for the Hersha Affiliates.

Operating Practices

The Lessee utilizes a centralized accounting and data processing system, which facilitates financial statement and budget preparation, payroll management, internal auditing and other support functions for the on-site hotel management team. The Lessee provides centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

The Company has an agreement between it and the Lessee [the "Administrative Services Agreement"] to provide accounting and securities reporting services for the Company. The Administrative Services Agreement provides that the Lessee shall perform such services for an annual fee of \$55,000 per year plus \$10,000 per property for each hotel owned by the Company. The Lessee employs approximately 500 people in operating the hotels. The Lessee has advised the Company that its relationship with its employees is good.

Business Risks

The hotels are subject to all operating risks common to the hotel industry. These risks include, among other things, competition from other hotels; recent over-building in the hotel industry, which has adversely affected occupancy and room rates; increases in operating costs due to inflation and other factors, which increases have not in recent years been, and may not necessarily in the future be, offset by increased room rates; significant dependence on business and commercial travelers and tourism; increases in energy costs and other expenses of travel; and adverse effects of general and local economic conditions. These factors could adversely affect the Lessee's ability to make lease payments and, therefore, the Company's ability to make expected distributions to shareholders. Further, decreases in room revenue at the hotels will result in decreased revenue to the Partnership and the subsidiary partnership, as applicable, under the Percentage Leases.

Environmental Risks

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. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect the owner's ability to borrow using such real property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or

remediation of such substances at the disposal or treatment facility, whether or not such facility is or ever was owned or operated by such person. Certain environmental laws and common law principles could be used to impose liability for release of asbestos-containing materials (“ACMs”) into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released ACMs. In connection with the ownership of the hotels, the Company, the Partnership or the subsidiary partnerships may be potentially liable for any such costs.

Phase I environmental site assessments were obtained on all of the hotels prior to their acquisition by the Company. Phase I environmental assessments were intended to identify potential environmental contamination for which the hotels may be responsible. The Phase I environmental assessments included historical reviews of the hotels, reviews of certain public records, preliminary investigations of the sites and surrounding properties, screening for the presence of hazardous substances, toxic substances and underground storage tanks, and the preparation and issuance of a written report. The Phase I environmental assessments did not include invasive procedures, such as soil sampling or ground water analysis.

The Phase I site assessments have not revealed any environmental liability that the Company believes would have a material adverse effect on the Company’s business, assets, results of operations or liquidity, nor is the Company aware of any such liability. Nevertheless, it is possible that the Phase I site assessments do not reveal environmental liabilities or that there are material environmental liabilities of which the Company is unaware. Moreover, no assurance can be given that (i) future laws, ordinances or regulations will not impose any material environmental liability, or (ii) the current environmental condition of the hotels will not be affected by the condition of other properties in the vicinity of the hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to the Company, the Partnership, the subsidiary partnerships or the Lessee.

The Company believes that the hotels are in compliance in all material respects with all federal, state and local ordinances and regulations regarding hazardous or toxic substances or other environmental matters. Neither the Company nor, to the knowledge of the Company, or any of the former owners of the Hotels have been notified by any governmental authority of any material noncompliance, liability or claim relating to hazardous or toxic substances or other environmental matters in connection with any of the hotels.

Franchise Agreements

We have paid certain expenses in connection with the transfer of the franchise licenses to the Lessee. The Lessee, which is owned by the Hersha Affiliates, holds all of the franchise licenses for each of the hotels currently owned by the Partnership. The Lessee is expected to hold all of the franchise licenses for any subsequently acquired hotel properties that it leases. We do not anticipate maintaining the franchise licenses for hotel properties managed by third party management companies. It is anticipated that franchise licenses for hotel properties managed by other lessees will be maintained by that lessee. During 1999, the Lessee paid franchise fees in the aggregate amount of approximately \$1,600,000.

Tax Status

The Company intends to make an election to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code (“Code”), commencing with its taxable year ending December 31, 1999. As long as the Company qualifies for taxation as a REIT, it generally will not be subject to Federal income tax on the portion of its income that is distributed to shareholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and to Federal income and excise taxes on its undistributed income.

Earnings and profits, which will determine the taxability of dividends to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives and methods used to compute depreciation. Of the total 1999 distributions to the Company’s shareholders, 100.0% are considered ordinary income.

ITEM 2. PROPERTIES

The following table sets forth certain information with respect to the hotels we owned as of December 31, 1999.

Twelve Months Ended December 31, 1999

Hotels	<u>Year Opened</u>	<u>Number of Rooms</u>	<u>Room Revenue</u>	<u>Other Revenue(1)</u>	<u>Occupancy</u>	<u>Average Daily Rate</u>	<u>REVPAR(2)</u>
Hotels							
Clarion Suites:							
Philadelphia, PA	1995	96					
Harrisburg, PA	1998	77					
Comfort Inns:							
Denver, PA (3)	1990	45					
JFK, NY(4)	1999	60					
Harrisburg, PA	1998	81					
Hampton Inn							
Carlisle, PA	1997	95					
Selinsgrove, PA (5)	1996	75					
Danville, PA	1998	72					
Holiday Inns:							
Milesburg, PA	1986	118					
Harrisburg, PA	1970	196					
Holiday Inn Express:							
Harrisburg, PA (6)	1968	117					
Hershey, PA	1997	85					
New Columbia, PA	1997	81					
Total/weighted average		1,198	\$19,124,381	\$2,878,681	62.1%	\$73.00	\$45.35
Total Revenue			\$22,003,062				

(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) The land underlying this hotel is leased to our operating Partnership by certain affiliates for rent of \$6,000 per year for 99 years.

(4) This hotel opened on August 12 and, thus, the data shown represents operations from the date of opening through December 31, 1999.

(5) 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.

(6) The land underlying this hotel is leased to our operating Partnership by certain affiliates for rent of \$15,000 per year for 99 years.

Holiday Inn Express (Riverfront), Harrisburg, Pennsylvania

Description. The Holiday Inn Express Riverfront, Harrisburg, Pennsylvania, is located at 525 South Front Street. The hotel was opened in 1968, was purchased in 1984 and was fully renovated in 1996. It is a 117-room, limited service hotel with non-smoking units available with an adjacent restaurant and lounge. Amenities include a fitness center and adjacent banquet and meeting facilities with a 200-person capacity.

Guest Profile and Local Competition. Approximately 25% of the hotel's business is related to business from the Commonwealth of Pennsylvania. The remainder of the hotel's business consists of tourists, overnight travelers and people visiting local residents. We consider this hotel's primary competition to be the Ramada Hotel on Second Street in Harrisburg, Pennsylvania.

Holiday Inn Express, Hershey, Pennsylvania

Description. The Holiday Inn Express, Hershey, Pennsylvania is located on Walton Avenue, one and one half miles from Hershey Park. The hotel, which opened in October 1997, is an 85-room limited service hotel. Amenities include an indoor pool, hot tub, fitness center, business service center, meeting facility, complimentary continental breakfast and 24-hour coffee. All rooms have one king bed or two queen beds and some rooms have refrigerators, coffee makers and microwaves.

Guest Profile and Local Competition. Approximately 30% of the hotel's business is related to commercial activity from local business. The hotel's group business, which accounts for approximately 5% of its business, is generated from area institutions, local weddings and local social and sporting events. The remainder of the hotel's business consists of transient guests, visitors to area residents and demand generated by the hotel's proximity to Hershey Park. We consider this hotel's primary competition to be the Comfort Inn in Hershey, Pennsylvania.

Holiday Inn Express, New Columbia, Pennsylvania

Description. The Holiday Inn Express, New Columbia, Pennsylvania is located at the intersection of Interstate 80 and Route 15. The hotel, which opened in December 1997, is an 81-room limited service hotel. Amenities include an indoor pool, hot tub, fitness center, meeting facility, complimentary continental breakfast and 24-hour coffee. All rooms have one king bed or two queen beds, some Jacuzzi suites are available and some rooms have refrigerators, coffee makers and microwaves. The Holiday Inn Express in New Columbia, Pennsylvania was ranked number one in its region for GSTS (Guest Satisfaction Tracking System), for February and March of 1998. This award recognizes the Holiday Inn Express in New Columbia as the leader in guest satisfaction and product service out of 32 other Holiday Inns and Holiday Inns Express in the Eastern region.

Guest Profile and Local Competition. Approximately 80% of the hotel's business is related to commercial activity from local business. As a result of its proximity to ski resorts and nearby tourist attractions, recreational travelers generate approximately 10% of the hotel's business. The remainder of the hotel's business consists of overnight travelers and visitors to area residents. We consider this hotel's primary competition to be the Comfort Inn in New Columbia, Pennsylvania.

Hampton Inn, Carlisle, Pennsylvania

Description. The Hampton Inn, Carlisle, Pennsylvania is located at the intersection of Route 11 and exit 16 off the Pennsylvania Turnpike. The hotel, which opened in June 1997, is a 95-room limited service hotel. Amenities include an indoor pool, hot tub, fitness center, meeting facilities, complimentary continental breakfast and 24-hour coffee. All rooms have one king bed or two queen beds, some Jacuzzi suites are available and some rooms have refrigerators, coffee makers and microwaves.

Guest Profile and Local Competition. Approximately 50% of the hotel's business is related to commercial activity from local businesses. The remainder of the hotel's business consists of overnight travelers and general demand generated by the hotel's proximity to the Carlisle Fairgrounds and the Army War College. We consider this hotel's primary competition to be the Holiday Inn in Carlisle, Pennsylvania.

Hampton Inn, Selinsgrove, Pennsylvania

Description. The Hampton Inn, Selinsgrove, Pennsylvania is located on Pennsylvania Routes 11 and 15. The hotel, which opened in September 1996, is a 75-room, three story, limited service hotel. Amenities include an indoor pool, hot tub, fitness center, meeting facilities, complimentary continental breakfast and 24-hour coffee. All rooms have one king bed or two queen beds, some Jacuzzi suites are available and some rooms have refrigerators, coffee makers and microwaves. The Hampton Inn in Selinsgrove was recently named one of the top hotels in the entire Hampton Inn system, receiving the hotel chain's Circle of Excellence Award. The award recognizes superior quality and guest satisfaction and is the highest distinction a Hampton Inn hotel can receive.

Guest Profile and Local Competition. Approximately 80% of the hotel's business is related to commercial activity from local businesses. The remainder of the hotel's business consists of pleasure travelers, transient guests and demand generated by the hotel's proximity to area universities and Knoebels Amusement Park. We consider this hotel's primary competition to be the Best Western near Selinsgrove, Pennsylvania.

Hampton Inn, Danville, Pennsylvania

Description. The Hampton Inn, Danville, Pennsylvania, is located at Exit 33 off Interstate 80. The hotel, which opened in September 1998, has 72 guest rooms. Amenities include an indoor pool, hot tub, meeting facilities, complimentary continental breakfast, and 24-hour coffee service. All rooms offer queen beds or king beds, and coffee makers.

Guest Profile and Local Competition. The majority of the hotel guests consist of tourists or overnight travelers. The Company considers its primary competition to be the Pine Barn Inn in Danville, PA.

Holiday Inn Hotel and Conference Center, Harrisburg, Pennsylvania

Description. The Holiday Inn Hotel and Conference Center, Harrisburg, Pennsylvania is located at the intersection of the Pennsylvania Turnpike exit 18 and Interstate 83, ten minutes from downtown, Harrisburg International Airport and Hershey Park. The hotel opened in 1970 as a Sheraton Inn and was converted to a Ramada Inn in 1984. It was completely renovated and converted to a Holiday Inn in September 1995. This hotel has 196 deluxe guest units and is a full service hotel, including a full service restaurant as well as a nightclub. Amenities include an indoor tropical courtyard with a pool and Jacuzzi as well as a banquet and conference facility for up to 700 people.

Guest Profile and Local Competition. Approximately 40% of the hotel's business is related to commercial activity from local businesses. The remainder of the hotel's business consists of overnight travelers visiting Hershey and Harrisburg. We consider this hotel's primary competition to be the Radisson Penn Harris in Camp Hill, Pennsylvania.

Holiday Inn, Milesburg, Pennsylvania

Description. The Holiday Inn, Milesburg/State College, Pennsylvania is located at Exit 23, I-80 and US 50 North. The hotel opened in 1977 as a Sheraton and was completely renovated in 1992. In 1996, the hotel was converted into a Holiday Inn. It is a 118-room, full service hotel with a full service restaurant and cocktail lounge. Amenities include an outdoor pool as well as banquet and meeting facilities for 220 people.

Guest Profile and Local Competition. Approximately 20% of the hotel's business is related to commercial activity from local businesses and demand generated by local businesses. Approximately 80% of the hotel's business consists of leisure travelers visiting the many tourist attractions around State College and I-80. We consider this hotel's primary competition to be the Best Western in Milesburg, Pennsylvania.

Comfort Inn, Denver, Pennsylvania

Description. The Comfort Inn, Denver, Pennsylvania is located at 2015 North Reading Road. This 45-room limited service hotel was constructed in 1990 and renovated in 1995. All rooms have one king bed or two queen beds and non-smoking units are available. Amenities include hairdryers in all rooms, a fitness center and a complimentary continental breakfast.

Guest Profile and Local Competition. Approximately 75% of the hotel's business is comprised of leisure travelers and transient guests related to its location at the crossroads of two major interstate highways. The remainder of the hotel's business is due to commercial activity from local businesses and people visiting area residents. We consider this hotel's primary competition to be the Holiday Inn in Denver, Pennsylvania.

Comfort Inn, Harrisburg, Pennsylvania

Description. The Comfort Inn, Harrisburg, Pennsylvania is located 8 miles north of Hershey, Pennsylvania at 7744 Linglestown Road off exit 27 of Interstate 81. The hotel opened in May 1998. It is an 81-room limited service hotel. Amenities include an indoor pool, hot tub, fitness center, meeting facilities, complimentary continental breakfast and 24-hour coffee. All rooms have one king bed or two queen beds and some Jacuzzi suites are available.

Guest Profile and Local Competition. Approximately 25% of the hotel's business is related to commercial activity from local businesses. The hotel's group business, which accounts for approximately 5% of its business, is generated from area institutions, local weddings and local social and sporting events. The remainder of the hotel's business consists of transient and recreational travelers generated by its proximity to Hershey, Pennsylvania. We consider this hotel's primary competition to be the Holiday Inn in Grantville, Pennsylvania.

Comfort Inn JFK, Jamaica New York

Description. The Comfort Inn JFK, Jamaica, NY is located at 144-36 153rd Lane. The hotel was newly constructed and opened in 1999. It is a 60-room, limited service hotel with non-smoking units available and a complimentary breakfast buffet.

Guest Profile and Local Competition. Approximately 75% of the hotel's business is related to business from the John F. Kennedy International Airport. The hotel's primary competition is the Ramada JFK, Holiday Inn JFK, Hilton JFK, and the Sheraton Hotel JFK.

Clarion Suites, Philadelphia, Pennsylvania

Description. The Clarion Suites, Philadelphia, Pennsylvania is located at 1010 Race Street, one half block from the newly-built Philadelphia convention center and six blocks from the Independence Hall historic district and the Liberty Bell. The hotel is located in the historic Bentwood Rocking Chair Company building, which was constructed in 1896 and converted to a Quality Suites hotel in the 1980s. The hotel was purchased by an affiliate as a Ramada Suites in 1995 and substantially rehabilitated. The affiliate later converted the hotel to a Clarion Suites. The hotel has 96 executive suites with fully-equipped kitchens and an eight-story interior corridor with Victorian style architecture. The hotel has a lounge featuring light fare and a comedy cabaret. Amenities include two large meeting rooms, boardrooms, a fitness room and a complimentary continental breakfast.

Guest Profile and Local Competition. Approximately 20% of the hotel's business is comprised of leisure travelers and transient guests related to its close proximity to the historic district. The remainder of the hotel's business is due to commercial activity from local businesses and people visiting area residents. We consider this hotel's primary competition to be all Center City, Philadelphia hotels.

Clarion Inn & Suites, Harrisburg, Pennsylvania

Description. The Clarion Inn & Suites, Harrisburg, Pennsylvania, is located at 5680 Allentown Boulevard and is easily accessible from Interstates 81 & 83. The hotel, which opened in August 1998, is a 77-room limited service hotel. Amenities include an outdoor pool, meeting facilities, complimentary continental breakfast, and 24-hour coffee. All rooms have one king bed or two queen beds. Jacuzzi suites are available and some rooms also have refrigerators and microwaves.

Guest Profile and Local Competition. Approximately 40% of the hotel's business is comprised of business travelers, 30% is related to group business, 20% is leisure travelers, and 10% is government business. The Company considers its primary competition the Best Western and the Baymont Inn both located in Harrisburg, Pennsylvania.

The Lessee

Hersha Hospitality Management, L.P., [the “Lessee” or “HHMLP”], was organized under the laws of the State of Pennsylvania in May, 1998 to lease and operate ten existing hotel properties, principally in the Harrisburg and Central Pennsylvania area, from Hersha Hospitality Limited Partnership [“HHLP”]. HHMLP commenced operations on January 1, 1999 and as of March 27, 2000 leased 16 hotel properties from HHLP. The Lessee is owned by the Hersha Affiliates, some of whom have ownership interests in HHLP. HHMLP also manages certain other properties owned by the Hersha Affiliates that are not owned by HHLP.

HHMLP manages all employees and performs all marketing, accounting and management functions necessary to operate the hotels pursuant to certain percentage leases. HHMLP utilizes a centralized accounting and data processing system, which facilitates financial statement and budget preparation, payroll management, internal auditing and other support functions for the on-site hotel management team. HHMLP also utilizes its sales management programs to coordinate, direct and manage the sales activities of the personnel located at the hotels.

Management of the Lessee

Certain information regarding the management of the Lessee is set forth below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
K.D. Patel	56	President
Tracy L. Kunday	38	Vice President
Jay H. Shah	31	Vice President, General Counsel and Secretary
Rajendra O. Gandhi	52	Vice President and Treasurer
David L. Desfor	38	Controller
Michael Heath	46	Director of Operations

K.D. Patel has been a principal of Hersha Enterprises, Ltd. since 1989. Mr. Patel currently serves as the President of the Lessee of all our hotels. He has received national recognition from Holiday Inn Worldwide for the successful management of Hersha’s Holiday Inn Express Hotels. In 1996, Mr. Patel was appointed by Holiday Inn Worldwide to serve as an advisor on its Sales and Marketing Committee and he is currently serving on the board of IAHI Express. Prior to joining Hersha Enterprises, Ltd., Mr. Patel was employed by Dupont Electronics from 1973 to 1990. He is a member of the Board of Trustees of a regional chapter of the American Red Cross and serves on the Advisory Board of the Penn State Business School. Mr. Patel received a Bachelor of Science degree in Mechanical Engineering from the M.S. University of India and a Professional Engineering License from the Commonwealth of Pennsylvania in 1982.

Tracy L. Kunday has a proven track record with over 21 years of experience in the hospitality industry. Mr. Kunday joined Hersha Enterprises in 1998 as the Director of Operations to aid in development and implementation of HHMLP. Mr. Kunday was previously the President and Managing Partner of Wellsprings Management Group, Inc., a company that he founded with a partner. In January 2000, Mr. Kunday was promoted to Vice President and was invited to become a Partner of HHMLP. Mr. Kunday is a Certified Hotel Administrator and Certified Rooms Division Executive. Mr. Kunday has a Bachelors of Science Degree from Eastern Washington University.

Jay H. Shah is a principal and general counsel for Hersha Enterprises, Ltd. Mr. Shah also takes an active role in the firm’s development and construction activities. He also serves on the Choice Hotels International Franchise Board. Mr. Shah was employed by Coopers & Lybrand LLP as a tax consultant in 1995 and 1996 and previously served the late Senator John Heinz as a Legislative Assistant. He also was employed by the Philadelphia District Attorney’s office and two Philadelphia based law firms. Mr. Shah received a Bachelor of Science degree from the Cornell University School of Hotel Administration, a Masters degree from the Temple University School of Business Management and a Law degree from Temple University School of Law.

Rajendra O. Gandhi has been a principal of Hersha Enterprises, Ltd. since 1986. Mr. Gandhi currently serves as President of Hersha Hotel Supply, Inc., which provides furnishings, case goods and interior furnishing materials to hotels and nursing homes in several states. Mr. Gandhi is a graduate of the University of Bombay, India and obtained an MBA degree from the University of West Palm Beach, Florida.

David L. Desfor has been a principal of Hersha Enterprises, Ltd. since 1991. Mr. Desfor is currently the Controller of Hersha Enterprises, Ltd. Mr. Desfor is a graduate of East Stroudsburg University with a Bachelor of Science degree in Hotel Management.

Michael Heath joined HHMLP in January 2000 as the Director of Operations. Mr. Heath comes to HHMLP with over 25 years of hospitality management experience. Prior to joining HHMLP, Mr. Heath was with Meristar Hotels and Resorts as a Regional Director of Operations. Mr. Heath also served as a sales manager for Loews Hotels and as a General Manger for various hotels including Holiday Inn, Hampton Inns and Homewood Suites. Mr. Heath is a graduate of the University of North Carolina with a Bachelor of Arts degree in American History.

The Percentage Leases

The following summary is qualified in its entirety by the actual Percentage Leases, the form of which has been filed as an exhibit to this Form 10-K.

Our hotels are operated by the Lessee pursuant to Percentage Leases. We intend to lease future acquired hotels to operators, including both our current Lessee and operators unaffiliated with the Lessee. Future leases with our current Lessee generally will be similar to the Percentage Leases. Future leases with operators unaffiliated with our current Lessee may or may not be similar to the Percentage Leases. Our board of trustees will negotiate the terms and provisions of each future lease, depending on the purchase price paid, economic conditions and other factors deemed relevant at the time.

Each percentage lease has an initial non-cancelable term of five years. All, but not less than all, of our current Percentage Leases may be extended for an additional five-year term at the Lessee's option. At the end of the first extended term, the Lessee, at its option, may extend some or all of the Percentage Leases for an additional five-year term. The Percentage Leases are subject to earlier termination upon the occurrence of defaults thereunder and certain other events described therein.

The Percentage Leases generally provide for the Lessee to pay in each calendar quarter the greater of the base rent or percentage rent. The percentage rent for each hotel is comprised of (i) a percentage of room revenues up to a threshold, (ii) a percentage of room revenues in excess of the first threshold but less than a second incentive threshold, (iii) a percentage of room revenues in excess of the second incentive threshold and (iv) a percentage of revenues other than room revenues. The second threshold is designed to provide an incentive to the Lessee to generate higher revenues at each hotel. Until the applicable adjustment date, the rent on the newly-renovated hotels and the newly-developed hotels will be the initial fixed rents applicable to those hotels. After the adjustment date, rent will be computed with respect to the newly-renovated hotels and the newly-developed hotels based on the percentage rent formulas described herein. The Lessee also will be obligated to pay certain other amounts, including interest accrued on any late payments or charges. Rent is payable quarterly in arrears.

The following table sets forth the initial fixed rent, if applicable, the annual base rent and the percentage rent formulas:

<u>Hotel Property</u>	<u>Initial Fixed Rent(1)</u>	<u>Annual Base Rent(1)</u>	<u>Percentage Rent Formula</u>
Holiday Inn Express: Harrisburg, PA	504,406	195,000	31.0% of room revenue up to \$1,153,655, plus 65.0% of room revenue in excess of \$1,153,655 but less than \$1,357,241, plus 29.0% of room revenue in excess of \$1,357,241, plus 8.0% of all non-room revenue.
Holiday Inn, Express: Hershey, PA	\$794,686	\$364,000	42.1% of room revenue up to \$1,479,523, plus 65.0% of room revenue in excess of \$1,479,523 but less than \$1,740,615, plus 29.0% of room revenue in excess of \$1,740,615, plus 8.0% of all non-room revenue.
Holiday Inn Express: New Columbia, PA	498,198	227,500	46.7% of room revenue up to \$850,986, plus 65.0% of room revenue in excess of \$850,986 but less than \$1,001,160, plus 29.0% of room revenue in excess of \$1,001,160, plus 8.0% of all non-room revenue.
Hampton Inn: Carlisle, PA	699,062	325,000	42.3% of room revenue up to \$1,293,906, plus 65.0% of room revenue in excess of \$1,293,906 but less than \$1,522,242, plus 29.0% of room revenue in excess of \$1,522,242, plus 8.0% of all non-room revenue.
Hampton Inn: Selingsrove, PA	n/a	308,469	49.0% of room revenue up to \$1,081,152, plus 65.0% of room revenue in excess of \$1,081,152 but less than \$1,271,943, plus 29.0% of room revenue in excess of \$1,271,943, plus 8.0% of all non-room revenue.

Hampton Inn: Danville, PA	\$504,116	\$234,000	43.2% of room revenue up to \$916,749, plus 65% of room revenue in excess of \$916,749 but less than \$1,078,528, plus 29.0% of room revenue in excess of \$1,078,528, plus 8.0% of all non-room revenue.
Holiday Inn Hotel and Conference Center: Harrisburg, PA	n/a	675,921	44.3% of room revenue up to \$2,638,247, plus 65.0% of room revenue in excess of \$2,638,247 but less than \$3,103,820, plus 31.0% of room revenue in excess of \$3,103,820, plus 8.0% of all non-room revenue.
Holiday Inn: Milesburg, PA	524,750	214,500	36.1% of room revenue up to \$1,065,960, plus 65.0% of room revenue in excess of \$1,065,960 but less than \$1,254,070, plus 31.0% of room revenue in excess of \$1,254,070, plus 8.0% of all non-room revenue.
Comfort Inn: Denver, PA	262,234	112,288	35.4% of room revenue up to \$559,542, plus 65.0% of room revenue in excess of \$559,542 but less than \$658,285, plus 29.0% of room revenue in excess of \$658,285, plus 8.0% of all non-room revenue.
Comfort Inn: Harrisburg, PA	514,171	234,000	40.7% of room revenue up to \$980,050, plus 65.0% of room revenue in excess of \$980,050 but less than \$1,153,000, plus 29.0% of room revenue in excess of \$1,153,000, plus 8.0% of all non-room revenue.
Comfort Inn JFK: Jamaica, NY	\$758,300	\$357,500	43.7% of room revenue up to \$1,370,430, plus 65.0% of room revenue in excess of \$1,370,430 but less than \$1,612,271, plus 29.0% of room revenue in excess of \$1,612,271, plus 8.0% of all non-room revenue.
Clarion Suites: Philadelphia, PA	n/a	418,593	36.1% of room revenue up to \$1,998,097, plus 65.0% of room revenue in excess of \$1,998,097 but less than \$2,350,702, plus 29.0% of room revenue in excess of \$2,350,702, plus 8.0% of all non-room revenue.
Clarion Inn & Suites: Harrisburg, PA	\$404,031	\$175,500	35.3% of room revenue up to \$855,611, plus 65% of room revenue in excess of \$855,611 but less than \$1,006,601, plus 29.0% of room revenue in excess of \$1,006,601, plus 8.0% of all non-room revenue.

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- (1) The initial fixed rent or base rent, as applicable, will accrue pro rata during each quarter of each lease year. The Lessee, however, will pay the initial fixed rent or the base rent, as applicable, for each calendar quarter in each lease year based on the ratio of budgeted gross revenues for such calendar quarter to budgeted gross revenues for such lease year.

ITEM 3. LEGAL PROCEEDINGS

We are not presently subject to any material litigation. To our knowledge, no litigation has been threatened against us or our affiliates other than routine actions and administrative proceedings substantially all of which are expected to be covered by liability insurance and which, in the aggregate, are not expected to have a material adverse effect on our business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our security holders during 1999, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our Priority Class A Common Shares began trading on the American Stock Exchange on January 20, 1999 under the symbol "HT." As of March 27, 2000, the last reported closing price per Priority Class A Common Share on the American Stock Exchange was \$5.125. The following table sets forth the high and low sales price per Priority Class A Common Share reported on the American Stock Exchange as traded for the period indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>
1999		
First Quarter (January 21, 1999 through March 31, 1999)	\$6.313	\$5.750
Second Quarter (April 1, 1999 through June 30, 1999)	\$6.125	\$5.125
Third Quarter (July 1, 1999 through September 30, 1999)	\$5.875	\$5.000
Fourth Quarter (October 1, 1999 through December 31, 1999)	\$5.500	\$4.813

Shareholder Information

At March 27, 2000, we had approximately 550 holders of record of our Priority Class A Common Shares. The subordinated units of limited partnership interest in our operating Partnership subsidiary (which are redeemable for Class B Common Shares subject to certain limitations) were held by twelve entities and or persons, including us.

Our organizational documents limit the number of equity securities of any series that may be owned by any single person or affiliated group to 9.9% of the outstanding shares.

Distribution Information

On March 15, 1999, we declared a cash distribution for the holders of the Priority Class A Common Shares for the period from January 1, 2000 to March 31, 2000 in the amount of \$0.18 per share, payable on April 28, 2000, to holders of record on March 29, 2000. We currently anticipate maintaining at least the current distribution rate for the immediate future, unless actual results of operations, economic conditions or other factors differ from our current expectations. Future distributions, if any, will be at the discretion of our board of trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant.

Our operating partnership subsidiary has not yet paid a distribution to the holders of its subordinated units of limited partnership interest.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

The following sets forth selected financial and operating data on a pro forma and historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The statement of operations and other data for the year ended December 31, 1999 include the historical results of the combined hotels prior to our acquisition of them.

Historical operating results of the combined hotels prior to our acquisition, including net income, may not be comparable to future operating results.

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Year ended December 31, <u>1999(1)</u>	Pro Forma Year ended December 31, <u>1999(1)</u>
Operating Data		
Percentage Lease Revenue(2)	\$ 7,264	\$ 8,299
Other Revenue	106	125
Total Revenue	7,370	8,424
Interest expense	1,428	1,768
Land lease	20	20
Real estate and personal property taxes and property insurance	450	546
General and administrative	363	424
Depreciation and amortization	<u>2,064</u>	<u>2,433</u>
Total expenses	4,325	5,191
Income before allocation to minority interest	3,045	3,233
Minority interest	<u>1,707</u>	<u>1,985</u>
Net income	<u>\$ 1,338</u>	<u>\$ 1,248</u>
Basic earnings per common share(3)	\$ 0.59	\$ 0.55
Diluted earnings per common share(3)	\$ 0.48	\$ 0.50
Dividends declared per common share	\$ 0.67	\$ 0.72
 Balance Sheet Data		
Net investment in hotel properties	\$ 51,908	
Minority interest in Partnership	\$ 18,980	
Shareholder's equity	\$ 11,805	
Total assets	\$ 56,382	
Total debt	\$ 24,754	
 Other Data		
Funds from operations(4)	\$ 5,109	
Net cash provided by operating activities	\$ 3,075	
Net cash (used in) investing activities	\$ (9,149)	
Net cash provided by financing activities	\$ 6,198	
Weighted average shares outstanding:		
Basic	2,275,000	
Diluted	6,369,700	

- (1) Hersha Hospitality Trust commenced operations on January 26, 1999. The unaudited pro forma information for Hersha Hospitality Trust is presented for information purposes as if the acquisition of all hotels by the Partnership, and the commencement of the Percentage Leases had occurred on January 1, 1999. The unaudited results are not necessarily indicative of what actual results of our operations would have been if we commenced operations on January 1, 1999.
- (2) Represents initial fixed rent plus aggregate Percentage Rent paid by the Lessee to the Partnership pursuant to the Percentage Leases, which payments are calculated by applying the rent provisions in the Percentage Leases to the historical room revenues.
- (3) Represents basic and diluted earnings per share computed in accordance with Statement of Financial Accounting Standards No. 128
- (4) We note that industry analysts and investors use Funds From Operations (FFO) as a tool to compare equity real estate investment trust performance. In accordance with the resolution adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT), FFO represents net income (loss) (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring or sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO presented herein is not necessarily comparable to FFO presented by other real estate companies due to the fact that not all real estate companies use the same definition.

The following table computes FFO:

	Year ended December 31, 1999 (1)
Net income applicable to common shares	\$ 1,338
Add:	
Minority interest	1,707
Depreciation and amortization	<u>2,064</u>
Funds From Operations	<u><u>\$ 5,109</u></u>

(1) Commenced operations on January 26, 1999.

HERSHA HOSPITALITY MANAGEMENT, L.P.
SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Year ended December 31, 1999 (1)
Operating Data	
Room revenue	\$ 21,871
Other revenue	<u>3,428</u>
Total Revenue	25,299
Hotel operating expenses	9,944
Restaurant operating expenses	1,822
Advertising and Marketing	1,228
Bad Debts	247
Depreciation and amortization	102
General and Administrative	3,717
Lease Expense - Related Party HHLP	7,264
Lease Expense - Other Related Parties	<u>1,361</u>
Total Expenses	<u>25,685</u>
Net Loss	<u><u>\$ (386)</u></u>

COMBINED ENTITIES - INITIAL HOTELS
SELECTED HISTORICAL FINANCIAL DATA
(In thousands)

	<u>Year Ended December 31,</u>			<u>1995</u>
	<u>1998</u>	<u>1997</u>	<u>1996</u>	
Operating Data				
Room revenue	\$ 15,185	\$ 10,880	\$ 7,273	\$ 5,262
Restaurant revenue	2,111	1,744	2,106	1,515
Other revenue	<u>790</u>	<u>821</u>	<u>610</u>	<u>442</u>
Total Revenue	18,086	13,445	9,989	7,219
Hotel operating expenses	7,449	5,628	4,538	3,789
Restaurant operating expenses	1,469	996	1,304	961
Advertising and Marketing	918	571	532	185
Depreciation and amortization	1,543	1,189	924	711
Interest expense	1,605	821	605	434
Interest expense - Related parties	386	533	316	200
General and Administrative	2,065	1,644	1,422	779
General and Administrative - Related Parties	608	320	364	102
Loss on Abandonments and Asset Disposals	95	-	12	284
Liquidation Damages	<u>-</u>	<u>14</u>	<u>-</u>	<u>150</u>
Total Expenses	<u>16,138</u>	<u>11,716</u>	<u>10,017</u>	<u>7,595</u>
Net Income (Loss)	<u>\$ 1,948</u>	<u>\$ 1,729</u>	<u>\$ (28)</u>	<u>\$ (376)</u>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements contained in this section that are not historical facts are based on current expectations. This includes statements regarding our 2000 anticipated revenues, expenses and returns, and future capital requirements. Words such as "believes", "expects", "anticipate", "intends", "plans" and "estimates" and variations of such words and similar words also identify forward-looking statements. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, subsequent events or any other circumstances.

GENERAL

The Company's principal source of revenue is from payments by the Lessee under the Percentage Leases. The principal determinants of Percentage Rent are the hotels' room revenue, and to a lesser extent, other revenue. The Lessee's ability to make payments to the Partnership under the Percentage Leases is dependent on the operations of the hotels.

OVERVIEW

Please refer to the information under Item 1, entitled "Overview."

Pro Forma Results of Operations of Our Hotels

Comparison of year ended December 31, 1999 to year ended December 31, 1998

Room revenue for our hotels increased \$4,487,852 or 27.8% to \$20,649,276 in 1999 from \$16,161,424 in 1998. The increase resulted from the addition of 80,890 available room nights with an overall increase of 54,776 room nights sold. The increase in room nights available was a result of opening three new hotels in 1998, which were open the full year in 1999, and one hotel that opened in 1999. In addition, a 2% increase in occupancy to 58% in 1999 as well as a 3.5% increase in our average daily rate to \$71.64 compared to \$69.23 augmented the available room-nights. Revenue per available room (REVPAR) increased 7.0% to \$41.34 from \$38.61.

Total expenses less depreciation, amortization and interest increased by \$2,277,434 or 18.2% to \$14,806,884. Operating income before interest expense, depreciation and amortization increased by 56.4% to \$8,702,136 from \$5,563,648.

Results of Operations of Our Hotels prior to the Commencement of Operations for Hersha Hospitality Trust

Comparison of year ended December 31, 1998 to year ended December 31, 1997

Room revenue for our hotels increased \$4,305,000 or 40% to \$15,185,000 in 1998 from \$10,880,000 in 1997. The increase resulted from the addition of 86,114 available room nights with an overall increase of 58,986 room nights sold. The increase in room nights available was a result of opening three new hotels in 1997, which were open the full year in 1998, and one hotel that opened in 1998. In addition, a 3% increase in occupancy to 62% from 60% in 1997 as well as a 2% increase in our average daily rate to \$69.54 compared to \$68.27 in 1997 augmented the available room nights. REVPAR increased 5% to \$43.30 from \$41.09.

Total expenses less depreciation, amortization and interest increased by \$3,431,000 or 37% to \$12,604,000. Operating income before interest expense, depreciation and amortization increased by 28% to \$5,482,000 from \$4,272,000.

Comparison of year ended December 31, 1997 to year ended December 31, 1996

Room revenue increased by \$3,607,000 or 50% to \$10,880,000 in 1997 from \$7,273,000 in 1996. The increase resulted from the addition of four new hotels opening in 1997 and one hotel which was only open during half of 1996 being open for the entire 1997 period. These new properties added additional available room-nights of 43,171. In addition, a 13% increase in occupancy to 60% from 53% in 1996 as well as a 7% increase in our average daily rate to \$68.27 compared to \$63.51 in 1996 augmented the available room-nights. Revenue per available room increased 25% to \$41.09 from \$33.48.

Total expenses less depreciation, amortization and interest increased by \$1,001,000 or 12% to \$9,173,000 but decreased as a percentage of total revenue to 68% from 82%. Operating income before interest expense, depreciation and amortization increased by 135% to \$4,272,000 from \$1,817,000.

Comparison of year ended December 31, 1996 to year ended December 31, 1995

Room revenue increased \$2,011,000 or 38% to \$7,273,000 in 1996 from \$5,262,000 in 1995. The increase in revenue came through the opening of two hotels in 1996 adding additional room-nights available of 41,168. In addition, an overall increase in occupancy of 10% to 53% from 48% in 1995 as well as a 2% increase in our average daily rate to \$63.51 compared to \$62.40 in 1995 augmented the available room-nights. Revenue per available room increased 12% to \$33.48 from \$29.89.

Total expenses less depreciation, amortization and interest increased by \$1,922,000 or 31% to \$8,172,000 but decreased as a percentage of total revenue to 82% from 87%. Operating income before interest expense, depreciation and amortization increased by 87% to \$1,817,000 from \$969,000.

Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our line of credit. We believe that our net cash provided by operations will be adequate to fund both operating requirements and our payment of dividends in accordance with REIT requirements of the federal income tax laws. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and property acquisitions, through long-term secured and unsecured borrowings, the issuance of additional equity securities or, in connection with acquisitions of hotel properties, the issuance of units of limited partnership interest in our operating partnership subsidiary.

We currently maintain a \$7.0 million line of credit with Sovereign Bank. We may use the line of credit to fund future acquisitions and for working capital. Outstanding borrowings under the Line of Credit bear interest at the bank's prime rate and are collateralized by the Holiday Inn, Milesburg, PA., and the Clarion Suites, Philadelphia, PA. In the future, we may seek to increase the amount of the line of credit, negotiate additional credit facilities or issue corporate debt instruments. Any debt incurred or issued by us may be secured or unsecured, long-term or short-term, fixed or variable interest rate and may be subject to such other terms as we deem prudent. The outstanding principal balance on the line of credit was approximately \$6.1 million at December 31, 1999 with approximately \$900,000 available on a collateralized basis. The weighted average interest rate on short term borrowings was 8.37%.

We have a debt policy that limits our consolidated indebtedness to less than 67% of the aggregate purchase prices for the hotels in which we have invested. However, our organizational documents do not limit the amount of indebtedness that we may incur and our board of trustees may modify our debt policy at any time without shareholder approval. We intend to repay indebtedness incurred under the line of credit from time to time, for acquisitions or otherwise, out of cash flow and from the proceeds of issuances of additional Priority Class A Common Shares and other securities.

We will invest in additional hotels only as suitable opportunities arise. We will not undertake investments in hotels unless adequate sources of financing are available. Our bylaws require the approval of a majority of our board of trustees, including a majority of the independent trustees, to acquire any additional hotel in which one of our trustees or officers, or any of their affiliates, has an interest (other than solely as a result of his status as a trustee, officer or shareholder of our company). We expect that future investments in hotels will depend on and will be financed by, in whole or in part, the proceeds from additional issuances of Priority Class A Common Shares or other securities or borrowings. Because of the level of our indebtedness, the success of our acquisition strategy will depend primarily on our ability to access additional capital through issuances of equity securities. We currently have no agreement or understanding to invest in any hotel and there can be no assurance that we will make any investments in any other hotels that meet our investment criteria.

Pursuant to our Percentage Leases, we will be required to make available to the Lessee of our hotels 4% (6% for the Holiday Inn Hotel and Conference Center, Harrisburg, PA and the Holiday Inn, Milesburg, PA) of gross revenues per quarter, on a cumulative basis, for periodic replacement or refurbishment of furniture, fixtures and equipment at each of our hotels. We believe that a 4% (6% for the Holiday Inn Hotel and Conference Center, Harrisburg, PA and the Holiday Inn, Milesburg, PA) percentage set-aside is a prudent estimate for future capital expenditure requirements. We intend to spend amounts in excess of the obligated amounts if necessary to comply with the reasonable requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be in our best interests. We will also be obligated to fund the cost of certain capital improvements to our hotels. We believe that amounts required to be set aside in our Percentage Leases will be sufficient to meet required expenditures for furniture, fixtures and equipment during the term of the Percentage Leases. We will use undistributed cash or borrowings under credit facilities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above.

Inflation

Operators of hotels in general possess the ability to adjust room rates quickly. However, competitive pressures may limit the Lessee's ability to raise room rates in the face of inflation, and annual increases in average daily rates have failed to keep pace with inflation.

Seasonality

Our hotels' operations historically have been seasonal in nature, reflecting higher occupancy rates during the second and third quarters. This seasonality can be expected to cause fluctuations in our quarterly lease revenue to the extent that we receive percentage rent.

Recently Issued Accounting Standards

None.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is to changes in interest rates on its variable rate Line of Credit. At December 31, 1999, the Company had total outstanding indebtedness under the Line of Credit of approximately \$6.1 million at an interest rate of 8.5%. At March 27, 1999, the Company had total outstanding indebtedness under the Line of Credit of approximately \$4.5 million at an interest rate of 9.0%. The entire amount outstanding under the Line of Credit becomes due and payable as of August 8, 2001. The Company has not entered into, but in the future may enter into, derivative financial instruments such as interest rate swaps to mitigate its interest rate risk. In the event that the Company does not have sufficient cash reserves to pay off the Line of Credit when due, it will have to borrow an amount sufficient to pay off the Line of Credit at the prevailing interest rate at the time the amount outstanding becomes due and payable. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's financing requirements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Hersha Hospitality Trust and Subsidiaries

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INDEPENDENT AUDITOR'S REPORT

To the Stockholders and Board of Trustees of
Hersha Hospitality Trust
New Cumberland, Pennsylvania

We have audited the accompanying consolidated balance sheet of Hersha Hospitality Trust and subsidiaries as of December 31, 1999, and the related consolidated statement of operations, shareholders' equity, and cash flows for the year then ended. We have also audited the accompanying consolidated balance sheet as of December 31, 1998 and the related consolidated statement of shareholders' equity for the period May 27, 1998 [date of inception] to December 31, 1998. Our audits also included the consolidated financial statement schedule included on Pages 44 and 45. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the year ended December 31, 1999, and the statement of shareholders' equity for the period May 27, 1998 [date of inception] to December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the consolidated financial statement schedule referred to above, when considered in relationship to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein as of December 31, 1999.

MOORE STEPHENS, P. C.
Certified Public Accountants.

Cranford, New Jersey
February 16, 2000 [Except as
to Note 13[B] as to which the date
is February 25, 2000]

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (1)
[IN THOUSANDS EXCEPT SHARE AMOUNTS]

	<u>December 31,</u> <u>1999</u>	<u>December 31,</u> <u>1998</u>
<i>Assets:</i>		
Investment in Hotel Properties, Net of Accumulated Depreciation	\$ 51,908	--
Cash and Cash Equivalents	124	--
Lease Payments Receivable - Related Party	2,116	--
Intangibles, Net of Accumulated Amortization	855	--
Due from Related Party	1,028	--
Other Assets	351	--
Total Assets	<u>\$ 56,382</u>	<u>--</u>
<i>Liabilities and Shareholders' Equity:</i>		
Cash Overdraft	\$ 84	--
Line of Credit	6,096	--
Mortgages Payable	18,658	--
Dividends Payable	410	--
Due to Related Party	188	--
Accounts Payable and Accrued Expenses	161	--
Total Liabilities	<u>25,597</u>	<u>--</u>
Minority Interest	<u>18,980</u>	<u>--</u>
Commitments and Contingencies	<u>--</u>	<u>--</u>
<i>Shareholders' Equity:</i>		
Preferred Shares, \$.01 par value, 10,000,000 Shares authorized, None Issued and Outstanding	--	--
Common Shares - Priority Class A, \$.01 Par Value, 50,000,000 Shares Authorized, 2,275,000 and -0- Shares Issued and Outstanding at December 31, 1999 and 1998, Respectively (Aggregate Liquidation Preference \$13,650)	23	--
Common Shares - Class B, \$.01 Par Value, 50,000,000 Shares Authorized, -0- and 100 Shares Issued and Outstanding at December 31, 1999 and 1998, Respectively	--	--
Additional Paid-in Capital	11,968	
Distributions in Excess of Net Earnings	(186)	--
Total Shareholders' Equity	<u>11,805</u>	<u>--</u>
Total Liabilities and Shareholders' Equity	<u>\$ 56,382</u>	<u>--</u>

(1) Operations commenced on January 26, 1999

The Accompanying Notes Are an Integral Part of This Financial Statement.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED
DECEMBER 31, 1999 (1)
[IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS]

	<u>Year ended</u> <u>December 31, 1999</u>
Revenue:	
Percentage Lease Revenue - Related Party	\$ 7,264
Interest	78
Interest - Related Party	<u>28</u>
Total Revenue	<u>7,370</u>
Expenses:	
Interest	1,428
Land Lease - Related Party	20
Real Estate and Personal Property Taxes and Insurance	
Insurance	450
General and Administrative	363
Depreciation and Amortization	<u>2,064</u>
Total Expenses	4,325
Income Before Minority Interest	<u>3,045</u>
Income Allocated to Minority Interest	<u>1,707</u>
Net Income	<u>\$ 1,338</u>
Basic Earnings Per Common Share	<u>\$ 0.59</u>
Diluted Earnings Per Common Share	<u>\$ 0.48</u>
Weighted Average Shares:	
Basic	2,275,000
Diluted (2)	6,369,700

(1) Operations commenced on January 26, 1999

(2) Includes 4,205,970 units of limited partnership interest that are redeemable on a one-for-one basis for Class B Common Shares.

The Accompanying Notes Are an Integral Part of This Financial Statement.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1999 (1) AND THE PERIOD MAY 27, 1998
(DATE OF INCEPTION) TO DECEMBER 31, 1998
[IN THOUSANDS, EXCEPT SHARES]

Description	Priority Class A Common Stock		Class B Common Stock		Additional paid-in capital	Distributions in excess of net earnings	Total
	Shares	Dollars	Shares	Dollars			
Balance at May 27, 1998	-	\$ -	-	\$ -	\$ -	\$ -	\$ -
Issuance of Initial Shares	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 1998	-	-	100	-	-	-	-
Cancellation of Initial Shares	-	-	(100)	-	-	-	-
Issuance of shares, net of offering expenses	2,275,000	23	-	-	11,968	-	11,991
Dividends declared (\$0.67 per share)	-	-	-	-	-	(1,524)	(1,524)
Net Income						1,338	1,338
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,338</u>	<u>1,338</u>
Balance at December 31, 1999	<u>2,275,000</u>	<u>\$ 23</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 11,968</u>	<u>\$ (186)</u>	<u>\$11,805</u>

(1) Operations commenced on January 26, 1999

The Accompanying Notes Are an Integral Part of This Financial Statement.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 1999 (1)
[IN THOUSANDS]

Operating Activities	
Net Income	\$ 1,338
Adjustments to Reconcile Net Income to Net Cash Provided by Operating activities:	
Depreciation and Amortization	2,064
Income Allocated to Minority Interest	1,707
Change in Assets and Liabilities:	
(Increase) Decrease in:	
Cash Overdraft	84
Lease Payments Receivable	(2,116)
Other Assets	(351)
Increase (Decrease):	
Due to Related Party	188
Accounts Payable and Accrued Expenses	161
Total Adjustments	<u>1,737</u>
Net Cash provided by Operating Activities	3,075
Investing Activities	
Purchase of Hotel Property Assets	(7,209)
Purchase of Intangible Assets	(940)
Advances to Related Party	<u>(1,000)</u>
Net Cash used in Investing Activities	(9,149)
Financing Activities	
Draw on Line of Credit	6,096
Net Proceeds from Issuance of Stock	11,991
Repayment of Mortgages Payable	(5,460)
Dividends Paid	(1,114)
Limited Partnership Unit Distributions Paid	(1,580)
Repayment of Related Party Loans	<u>(3,735)</u>
Net Cash provided by Financing Activities	6,198
Net Increase in Cash and Cash Equivalents	124
Cash and Cash Equivalents - Beginning of Period	<u>-</u>
Cash and Cash Equivalents - End of Period	<u><u>\$ 124</u></u>

(1) Operations commenced on January 26, 1999

The Accompanying Notes Are an Integral Part of This Financial Statement.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 1999 (1)
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

Supplemental Disclosure of Cash Flow Information:

Cash Paid During the Period:

Interest

\$ 1,393

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

We have acquired an Investment in Hotel Properties with an approximate value, at the commencement of operations, of \$40,307 in exchange for (i) 4,032,321 subordinated units of limited partnership interest in the partnership that are redeemable for the same number of Class B Common Shares with a value of approximately \$24.2 million based on the initial offering price and (ii) the assumption of approximately \$23.3 million of indebtedness of which approximately \$6.1 million was repaid immediately after the acquisition of the hotels and approximately \$2.8 million was repaid prior to June 30, 1999.

On September 1, 1999, we have acquired an Investment in the Hampton Inn, Danville, PA in exchange for (i) 173,359 subordinated units of limited partnership interest in the partnership that are redeemable for the same number of Class B Common Shares with a value of approximately \$1.0 million based on the initial offering price and (ii) the assumption of approximately \$2.6 million of indebtedness.

We assumed mortgages payable of \$2.0 million in connection with the acquisition of the Clarion Inn & Suites, Harrisburg.

On December 29, 1999 we declared a \$0.18 per Class A Common Share dividend of \$410 that was paid on January 31, 2000 and a distribution of \$460 to the holders of limited partnership units.

(1) Operations commenced on January 26, 1999

The Accompanying Notes Are an Integral Part of This Financial Statement.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[1] Organization and Basis of Financial Presentation

Hersha Hospitality Trust was formed in May 1998 to acquire equity interests in ten existing hotel properties. We are a self-administered, Maryland real estate investment trust for federal income tax purposes. On January 26, 1999, we completed an initial public offering of 2,275,000 shares of \$.01 par value Priority Class A Common Shares. The offering price per share was \$6 resulting in gross proceeds of \$13,650. Net of underwriters discount and offering expenses, we received net proceeds of \$11,991.

Upon completion of the initial public offering, we contributed substantially all of the net proceeds to Hersha Hospitality Limited Partnership [the "Partnership"] in exchange for a 36.1% general partnership interest in the Partnership. The Partnership used these proceeds to acquire an equity interest in ten hotels [the "Initial Hotels"] through subsidiary partnerships, and to retire certain indebtedness relating to these hotels. The Partnership acquired these hotels in exchange for (i) units of limited partnership interest in the Partnership which are redeemable, subject to certain limitations, for an aggregate of 4,032,431 Priority Class B Common Shares, with a value of approximately \$24.2 million based on the initial public offering, and (ii) the assumption of approximately \$23.3 million of indebtedness of which approximately \$6.1 million was repaid immediately after the acquisition of the hotels. Hasu P. Shah and certain affiliates [the "Hersha Affiliates"] received units of limited partnership interests in the Partnership aggregating a 63.9% equity interest in the Partnership. The Partnership owns a 99% limited partnership interest and Hersha Hospitality, LLC ["HHLLC"], a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships. The Partnership is the sole member of HHLLC. We began operations on January 26, 1999, therefore, the historical financial statements include activity from January 26, 1999 to December 31, 1999.

Since inception, we have leased all of our hotel facilities to Hersha Hospitality Management, LP, [the "Lessee" or "HHMLP"], a limited partnership owned by the Hersha Affiliates. The Lessee operates and leases the hotel properties pursuant to separate percentage lease agreements [the "Percentage Leases"] which provide for initial fixed rents or percentage rents based on the revenues of the hotels. The hotels are located principally in the eastern Pennsylvania area.

[2] Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and includes all of our accounts as well as accounts of the Partnership and the subsidiary partnerships and all intercompany amounts have been eliminated.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investment in Hotel Properties - Investment in hotel properties are stated at cost. Depreciation for financial reporting purposes is principally based upon the straight-line method.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[2] Summary of Significant Accounting Policies [Continued]

The estimated lives used to depreciate the Hotel properties are as follows:

Building and Improvements	15 to 40 Years
Furniture and Fixtures	5 to 7 Years

Impairment of Long-Lived Assets - We review the carrying value of each hotel property in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121 to determine if circumstances exist indicating an impairment in the carrying value of the investment in the hotel property or that depreciation periods should be modified. Long-Lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. We perform undiscounted cash flow analyses to determine if an impairment exists. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. We do not believe that there are any current facts or circumstances indicating impairment of any of our investment in hotel properties.

Cash and Cash Equivalents - Cash and cash equivalents are comprised of cash and certain highly liquid investments with maturities of three months or less when acquired, carried at cost which approximates fair value. We had no cash equivalents at December 31, 1999.

Intangible Assets - Intangible assets are carried at cost and consist of loan acquisition fees and goodwill. Amortization of loan acquisition fees is computed using the straight-line method over the 2 year term of the related debt and over a 15 year period for goodwill.

Revenue Recognition - Percentage lease income is recognized when earned from the Lessee under the agreements from the date of acquisition of each hotel property. Lease income is recognized under fixed rent agreements ratably over the lease term. All leases between us and the Lessee are operating leases.

Income Taxes - We qualify as a real estate investment trust under Section 856 and 860 of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been reflected in the financial statements.

Earnings and profits that determine the taxability of dividends to shareholders differ from net income reported for financial reporting purposes due to the differences for Federal tax purposes in the estimated useful lives and methods used to compute depreciation. During 1999, none of the distributions were considered to be return of capital for Federal income tax purposes.

Minority Interest - Minority interest in the Partnership represents the limited partners proportionate share of the equity of the Partnership. The limited partnership interests are owned by numerous individuals and companies as of December 31, 1999. Income is allocated to minority interest based on weighted average percentage ownership throughout the year.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[2] Summary of Significant Accounting Policies [Continued]

Earnings Per Common Share - We compute earnings per share in accordance with Statement of Financial Accounting Standards ["SFAS"] No. 128, "Earnings Per Share."

SFAS No. 128 supersedes Accounting Principles Board Opinion No. 15, "Earnings Per Share," and replaces its primary earnings per share with new basic earnings per share representing the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Diluted earnings per share reflects the amount of earnings for the period available to each share of common stock outstanding during the reporting period, while giving effect to all dilutive potential common shares that were outstanding during the period, such as common shares that could result from the potential exercise or conversion of securities into common shares.

The computation of diluted earnings per share does not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on earnings per share. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by the application of the treasury stock method which recognizes the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period. Options and warrants will have a dilutive effect only when the average market price of the common shares during the period exceeds the exercise price of the option or warrants.

Potential future dilutive securities include 4,205,970 shares issuable under limited partnership units and 534,000 shares issuable under outstanding options.

Concentration of Credit Risk - Financial instruments that potentially subject us to concentrations of credit risk include cash and cash equivalents and rent receivable arising from our normal business activities. We place our cash and cash equivalents with high credit quality financial institutions. We do not require collateral to support our financial instruments. At December 31, 1999, we had approximately \$35 in financial institutions that exceeded federally insured amounts.

Rental income is earned from a single related party lessee. Therefore, the collection of rent receivable and rent income is reliant on the continued financial health of the Lessee.

Stock Based Compensation - We account for employee stock-based compensation under the intrinsic value based method as prescribed by Accounting Principles Board ["APB"] Opinion No. 25. We apply the provisions of SFAS No. 123, "Accounting for Stock Based Compensation," to non-employee stock-based compensation and the pro forma disclosure provisions of that statement to employee stock-based compensation.

Distributions - We intend to pay regular quarterly dividends which are initially dependent upon receipt of distributions from the partnership. On December 29, 1999, we declared a \$.18 per Class A Common Share dividend which was paid on January 31, 2000. As of December 31, 1999, the cumulative distributions declared since the commencement of operations on January 26, 1999 was \$0.67 per Class A Common Share.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[3] Intangible Assets

At December 31, 1999, intangibles consisted of the following:

Description	Cost	Accumulated Amortization	Net
Goodwill	\$ 868	\$ 72	\$ 796
Loan Acquisition Fees	<u>72</u>	<u>13</u>	<u>59</u>
Totals	<u>\$ 940</u>	<u>\$ 85</u>	<u>\$ 855</u>

Amortization expense was \$85 for the year ending December 31, 1999

[4] Investment in Hotel Properties

Hotel properties consist of the following at December 31, 1999:

	1999
Land	\$ 4,597
Buildings and Improvements	42,915
Furniture, Fixtures and Equipment	<u>6,375</u>
	53,887
Less Accumulated Depreciation	<u>1,979</u>
	<u>\$51,908</u>

Depreciation expense was \$1,979 for the year ending December 31, 1999.

The thirteen hotels owned at December 31, 1999 consist of eleven premium limited service hotels and two full service properties.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[4] Investment in Hotel Properties [Continued]

In 1999, we acquired the following premium limited service hotels for the approximate amounts indicated:

	No. of Rooms	Purchase Price
Comfort Inn - JFK, NY	60	\$5,500
Clarion Inn & Suites, Harrisburg, PA	77	2,700
Hampton Inn, Danville, PA	<u>72</u>	<u>3,600</u>
	209	\$11,800

On August 11, 1999 we purchased, from the Hersha Affiliates, all the partnership interests in 3744 Associates, a Pennsylvania limited partnership and through the ownership of 3744 Associates, a 60-room Comfort Inn hotel located near the John F. Kennedy International Airport in Jamaica, New York. The Comfort Inn was newly constructed and commenced operations on August 12, 1999.

On September 1, 1999 we purchased, from the Hersha Affiliates, all the partnership interests in 2844 Associates, a Pennsylvania limited partnership and, through the ownership of 2844 Associates, a 77-room Clarion Inn & Suites hotel located in Harrisburg, Pennsylvania. We also purchased the 72-room Hampton Inn hotel located in Danville, Pennsylvania from 3544 Associates.

The purchase prices for the Comfort Inn, Hampton Inn and Clarion Inn & Suites are \$5.5million, \$3.6 million and \$2.7 million, respectively. The purchase price valuations for the properties acquired were based upon the rent to be paid by the Lessee under Percentage Leases. The purchase prices of these hotels will be adjusted on December 31, 2001 by applying a pricing methodology to such hotels' cash flows in a manner similar to that of the other hotels purchased by HHLP from the Hersha Affiliates. The adjustments must be approved by a majority of the Company's independent trustees.

The above acquisitions were accounted for as purchases, and the results of such acquisitions are included in the Company's consolidated statements of operations from the dates of acquisition. No goodwill arose in the transactions.

[5] Debt

Debt is comprised of the following at December 31, 1999:

	<u>1999</u>
Mortgages Payable	\$ 18,658
Revolving Credit Facility	<u>6,096</u>
	\$ 24,754

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[5] Debt [Continued]

Substantially all of our mortgage indebtedness is collateralized by property and equipment and in certain situations is personally guaranteed by the Hersha Affiliates. The total mortgages payable balance at December 31, 1999, was \$18,658 and consisted of mortgages with fixed interest rates ranging from 7.75% to 8.45%. The maturities for the outstanding mortgages ranged from October 3, 2011 to October 18, 2013.

On August 9, 1999, the Company obtained a \$7.0 million credit facility from Sovereign Bank (the "Line of Credit"). Outstanding borrowings under the Line of Credit bear interest at the bank's prime rate and the Line of Credit is collateralized by the Holiday Inn, Milesburg, PA and the Clarion Suites, Philadelphia, PA. The interest rate on borrowings under the Line of Credit at December 31, 1999 was 8.50%. The Line of Credit expires on August 8, 2001. We have the option to extend the Line of Credit for an additional twelve months upon expiration. The outstanding principal balance on the Line of Credit was approximately \$6.1 million at December 31, 1999 with approximately \$900,000 available on a collateralized basis. The weighted average interest rate on short term borrowings was 8.37 %.

Aggregate annual principal payments for the Company's mortgages payable at December 31, 1999 are due as follows:

2000	\$	853
2001		925
2002		1,003
2003		1,088
2004		1,201
Thereafter		<u>13,588</u>
<i>Total</i>	\$	<u>18,658</u>

[6] Commitments and Contingencies and Related Party Transactions

In conjunction with the initial public offering, we acquired the Initial Hotels and entered into percentage lease agreements with Hersha Hospitality Management, L.P. We have acquired three properties subsequent to our public offering. Under the Percentage Leases, the Partnership is obligated to pay the costs of certain capital improvements, real estate and personal property taxes and property insurance, and to make available to the lessee an amount equal to 4% [6% for some hotels] of room revenues per quarter, on a cumulative basis, for the periodic replacement or refurbishment of furniture, fixtures and equipment at these hotels.

For the year ending December 31, 1999 the limited partners were paid cumulative distributions of \$2,039. We have a commitment outstanding to the limited partners of \$704 as of December 31, 1999. The Priority Class A Common shareholders will be entitled to receive dividends in excess of the priority distribution [See Note 9] after the limited partners have received an amount equal to the priority distribution. The holders of the Priority Class A Common Shares will be entitled to receive further distributions on a pro rata basis with the holders of the limited partnership units.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[6] Commitments and Contingencies and Related Party Transactions [Continued]

We are the sole general partner in the Partnership, which is the sole general partner in the subsidiary partnerships and, as such, are liable for all recourse debt of the Partnership to the extent not paid by the Partnerships. In the opinion of management, we do not anticipate any losses as a result of our obligations as general partner.

We have entered into percentage leases relating to each of the hotels with the Lessee. Each percentage lease will have an initial non-cancelable term of five years. All of the Percentage Leases for these hotels may be extended for an additional five-year term at the Lessee's option. At the end of the first extended term, the Lessee, at its option, may extend some or all of the Percentage Leases for these hotels for an additional five-year term. Pursuant to the terms of the Percentage Leases, the Lessee is required to pay initial fixed rent, base rent or percentage rent and certain other additional charges and is entitled to all profits from the operations of the hotels after the payment of certain specified operating expenses.

We have future lease commitments from the Lessee through January 2004. Minimum future rental income under these noncancellable operating leases at December 31, 1999, is as follows:

2000	\$	7,775
2001		6,420
2002		4,604
2003		4,604
2004		1,280
Thereafter		<u>0</u>
Total	\$	<u>24,683</u>

For the period January 26, 1999 through December 31, 1999, we earned initial fixed rents of \$4,152 and earned percentage rents of \$3,112.

We have acquired seven of the Initial Hotels and three other hotels, since the commencement of operations, for prices that will be adjusted at either December 31, 1999, 2000 or 2001. The purchase price adjustments are calculated by applying the initial pricing methodology to such hotels' cash flows as shown on our and the Lessee's audited financial statements. The adjustments must be approved by a majority of our independent trustees. If the repricing produces a higher aggregate value for such hotels, the Hersha Affiliates receive an additional number of units of limited partnership interest that, when multiplied by the offering price, equals the increase in value plus the value of any distributions that would have been made with respect to such units of limited partnership interest if such units had been issued at the time of the acquisition of such hotels. If, however, the repricing produces a lower aggregate value for such hotels, the Hersha Affiliates forfeit to the Partnership that number of units that, when multiplied by the offering price, equals the decrease in value plus the value of any distributions made with respect to such units of limited partnership interest. Any adjustments arising from the issuance or forfeiture of shares will adjust the cost of the property acquired based on the fair value of the shares on the date of the adjustment.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

On January 26, 1999, we executed an administrative services agreement with the Lessee to provide accounting and securities reporting services for the Company. The terms of the agreement provided for a fixed fee of \$55 with an additional \$10 per property (prorated from the time of acquisition) for each hotel added to the Company's portfolio. As of December 31, 1999 \$155 has been charged to operations.

We owe the Lessee, a related party, \$144 for replacement reserve reimbursements and \$44 under the administrative services agreement as of December 31, 1999.

We leased a parcel of real estate to Mr. Hasu P. Shah for a nominal amount per year.

We leased a two parcels of real estate from the Hersha Affiliates for an aggregate annual rental of \$21.

We paid to Mr. Jay H. Shah, son of Mr. Hasu P. Shah, certain legal fees aggregating \$153. Of this amount \$144 was capitalized as Settlement costs.

We have approved the lending of up to \$3.0 million to the Hersha Affiliates to construct hotels and related improvements on specific hotel projects. As of December 31, 1999, the Hersha Affiliates owe us \$1.0 million related to this borrowing. The Hersha Affiliates have borrowed this money from us at an interest rate of 12.0% per annum. Interest income from these advances was \$28 for the year ended December 31, 1999.

[7] Stock Option Plans

[A] Prior to the initial public offering, we adopted the Option Plan. The Option Plan is administered by the Compensation Committee of the Board of Trustees, or its delegate.

Our officers and other employees generally are eligible to participate in the Option Plan. The administrator of the plan selects the individuals who participate in the Option Plan.

The Option Plan authorizes the issuance of options to purchase up to 650,000 Class B Common Shares and subordinated units. The Option Plan provides for the grant of (i) options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, and (ii) options not intended to so qualify. Options under the option plan may be awarded by the administrator of the Option Plan, and the administrator will determine the option exercise period and any vesting requirements. The options granted under the Option Plan will be exercisable only if (i) we obtain a per share closing price on the Common Shares of \$9.00 or higher for 20 consecutive trading days and (ii) the closing price per Common Share for the prior trading day was \$9.00 or higher. In addition, no option granted under the option plan may be exercised more than five years after the date of grant. The exercise price for options granted under the option plan will be determined by the Compensation Committee at the time of grant.

No option award may be granted under the Option Plan more than ten years after the date the Board of Trustees approved such Plan. The Board may amend or terminate the Option Plan at any time, but an amendment will not become effective without shareholder approval if the amendment (i) increases the number of shares that may be issued under the Option Plan, (ii) materially changes the eligibility requirements or (iii) extends the length of the Option Plan. No amendment will affect a participant's outstanding award without the participant's consent.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[7] Stock Option Plans [Continued]

We issued options to purchase 500,000 Class B common shares and units under the Option Plan with a exercise price of \$6.00, subject to the price restrictions mentioned above. Utilizing the Black Scholes option pricing model no compensation is required to be recorded.

[B] Prior to the initial public offering, the Board of Trustees also adopted, and our sole shareholder approved, the Trustees' Plan to provide incentives to attract and retain Independent Trustees. The Trustees' Plan authorizes the issuance of up to 200,000 Class B Common Shares. The Trustees' Plan provides for, in the event the Class B Common Shares are converted into another or our securities, the issuance of equivalent amounts of such security and options to purchase such security into which the Class B Common Shares are converted.

Under the Trustees' Plan, we granted a nonqualified option for Class B Common Shares to our independent Trustees who were members of the Board on the effective date of the initial public offering. The exercise price of each such option is equal to the offering price. Each such option shall become exercisable over the particular Trustee's initial term, provided that the Trustee is a member of the Board on the applicable date. An option granted under the Trustees' Plan will be exercisable only if (i) we obtain a per share closing price on the Priority Common Shares of \$9.00 for 20 consecutive trading days and (ii) the per share closing price on the Priority Common Shares for the prior trading day was \$9.00 or higher. Options issued under the Trustees' Plan are exercisable for five years from the date of grant.

A Trustee's outstanding options will become fully exercisable if the Trustee ceases to serve on the Board due to death or disability. All awards granted under the Trustees' Plan shall be subject to Board or other approval sufficient to provide exempt status for such grants under Section 16 of the Securities Exchange Act of 1934, as amended, as that section and the rules thereunder are in effect from time to time. No option may be granted under the Trustees' Plan more than 10 years after the date that the Board of Trustees approved the Plan. The Board may amend or terminate the Trustees' Plan at any time but an amendment will not become effective without shareholder approval if the amendment increases the number of shares that may be issued under the Trustees' Plan (other than equitable adjustments upon certain corporate transactions).

We issued options to purchase 34,000 Class B Common Shares under the Trustees' Plan with an exercise price of \$6.00, subject to the price restrictions mentioned above. Utilizing the Black Scholes option pricing model no compensation is required to be recorded.

The fair value of each option grant is estimated on the date of the grant with the following weighted average assumptions:

Dividend Yield	12.00%
Expected Volatility	30.63%
Risk-Free Interest Rate	5.20%
Expected Lives	3 Years

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[7] Stock Option Plans [Continued]

A summary of stock option activity under all plans is as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding December 31, 1998	-	\$ -
Granted	1,033,975	\$ 6.00
Exercised	-	-
Forfeited/Expired	-	-
Cancelled	<u>(499,975)</u>	<u>\$ 6.00</u>
Outstanding December 31, 1999	<u>534,000</u>	<u>\$ 6.00</u>
Exercisable December 31, 1999	<u>-</u>	

The following table summarizes information about stock options at December 31, 1999:

<u>Exercise Price</u>	<u>Shares</u>	<u>Outstanding</u>		<u>Exercisable</u>	
		<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
\$6.00	534,000	4.42	\$6.00	-	-

The number of shares available at December 31, 1999 and 1998 for granting of options was 316,000 and 0, respectively.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[8] Earnings Per Share

	Year ended December 31, 1999
Net Income for Basic Earnings Per Share	\$ 1,338
Add: Income Attributable to Minority Interest	<u>1,707</u>
<u>Net Income for Diluted Earnings Per Share</u>	<u>\$ 3,405</u>
Weighted Average Shares for Basic Earnings Per Share	2,275,000
Dilutive Effect of Limited Partnership Units	<u>4,094,700</u>
<u>Weighted Average Shares for Diluted Earnings Per Share</u>	<u>6,369,700</u>

[9] Capital Stock

The Priority Class A Common Shares have priority as to the payment of dividends until dividends equal \$.18 per share on a quarterly basis and shares equally in additional dividends after the Class B Common Shares have received \$.18 per share in each quarterly period. The Priority Class A Common Shares carry a liquidation preference of \$6.00 per share plus unpaid dividends and votes with the Class B Common Shares on a one vote per share basis. The priority period of the Class A Shares commenced on the date of the closing of the initial public offering and end on the earlier of (i) five years after the initial public offering of the Priority Common Shares, or (ii) the date that is 15 trading days after the closing bid price of the Priority Common Shares is at least \$7 on each trading day during such 15-day period.

Pursuant to the Hersha Hospitality Limited Partnership Agreement, the limited partners have certain redemption rights that enable them to cause the partnership to redeem their units of limited partnership interest in exchange for Class B Common Shares or for cash at our election. In the event the Class B Common Shares are converted into Priority Class A Common Shares prior to redemption of the units, the units will be redeemable for Priority Class A Common Shares. If we do not exercise our option to redeem the units for Class B Common Shares, then the limited partner may make a written demand that we redeem the units for Class B Common Shares. These redemption rights may be exercised by the limited partners over time periods ranging from one to two years from January 26, 1999. At December 31, 1999, the aggregate number of Class B Common Shares issuable to the limited partners upon exercise of the redemption rights is 4,205,970. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidation or similar pro rata share transactions, that otherwise would have the effect of diluting the ownership interest of the limited partners or our shareholders.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[9] Capital Stock [Continued]

The Company's common stock is duly authorized, fully paid and nonassessable. Common shareholders are entitled to receive dividends if and when authorized and declared by the Board of Trustees of the Company out of assets legally available and to share ratably in the assets of the Company legally available for distribution to its shareholders in the event of its liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities of the Company. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of shareholders. See Note 4 for a discussion of the units issued and the redemption rights of minority interest shareholders with respect to 4,205,970 units that are redeemable on a one-for-one basis for shares of Class B common shares. None of the units discussed in Note 4 have been redeemed.

We intend to make regular quarterly distributions to holders of the Priority Common Shares initially equal to \$0.18 per share, which on an annualized basis would be equal to \$0.72 per share or 12.0% of the Offering Price of \$6.00. The holders of the Priority Common Shares will be entitled to a priority with respect to distributions and amounts payable upon liquidation [the "Priority Rights"] for a period [the "Priority Period"] beginning on January 26, 1999 and ending on the earlier of: (i) the date that is 15 trading days after the Company sends notice to the record holders of the Priority Common Shares that their Priority Rights will terminate in 15 trading days, provided that the closing bid price of the Priority Common Shares is at least \$7.00 on each trading day during such 15-day period, or (ii) the fifth anniversary of the closing of the Offering.

Upon liquidation of the Partnership during the Priority Period, after payment of, or adequate provision for, debts and obligations of the Partnership, including any partner loans, any remaining assets of the Partnership will be distributed in the following order of priority: (i) first, to us until we have received any unpaid Preferred Return plus an amount equal to \$6.00 per Unit held by us, (ii) second, to the Limited Partners in accordance with their respective percentage interests in the Partnership until each Limited Partner has received an amount equal to any unpaid Preferred Return plus \$6.00 per Unit held by the such Limited Partner, and (iii) finally, to us and the Limited Partners with positive capital accounts.

Upon liquidation of the Partnership after the Priority Period, after payment of, or adequate provision for, debts and obligations of the Partnership, including any partner loans, any remaining assets of the Partnership will be distributed to us and the Limited Partners with positive capital accounts in accordance with their respective positive capital account balances.

Pursuant to the Partnership Agreement, the Limited Partners will receive the Redemption Rights, which will enable them to cause the Partnership to redeem their interests in the Partnership in exchange for cash or, at the option of the Company, Class B Common Shares on a one-for-one basis. In the event that the Class B Common Shares are converted into Priority Common Shares prior to redemption of the Subordinated Units, such outstanding Subordinated Units will be redeemable for Priority Common Shares. The holders of the Priority Common Shares and the Class B Common Shares have identical voting rights and will vote together as a single class.

[10] New Authoritative Pronouncements

The FASB has issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and how it is designated, for example, gain or losses related to changes in the fair value of a derivative not designated as a hedging instrument is recognized in earnings in the period of the change, while certain types of hedges may be initially reported as a component of other comprehensive income until the consummation of the underlying transaction.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[10] New Authoritative Pronouncements [Continued]

SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Initial application of SFAS No. 133 should be as of the beginning of a fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of SFAS No. 133. Earlier application of all of the provisions of SFAS No. 133 is encouraged, but it is permitted only as of the beginning of any fiscal quarter. SFAS No. 133 is not to be applied retroactively to financial statements of prior periods. We do not currently have any derivative instruments and are not currently engaged in any hedging activities. In June 1999 the FASB issued SFAS No. 137 which deferred the effective date of SFAS No. 133 to fiscal quarters beginning after June 30, 2000.

[11] Fair Value of Financial Instruments

At December 31, 1999, financial instruments include cash and cash equivalents, lease payments receivable, accounts payable, accrued expenses, loans to and from related parties, a line of credit and mortgages payable. The fair values of cash and cash equivalents, lease payments receivable and accounts payable and accrued expenses approximate carrying value because of the short-term nature of these instruments. Loans to and from related parties carry interest at rates that approximate our borrowing cost. The fair value of mortgages payable and the line of credit approximates carrying value since the interest rates approximate the interest rates currently offered for similar debt with similar maturities.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[12] Pro Forma Information[Unaudited]

Due to the impact of the acquisitions, historical operations may not be indicative of future results of operations and net income per common share.

The following pro forma information is presented for information purposes as if the acquisition of all hotels by the partnership, including the acquisitions discussed in Note [1] - Organization and Basis of Presentation, and the commencement of the Percentage Leases had occurred on January 1, 1999 and 1998, respectively. The unaudited pro forma condensed statement of operations is not necessarily indicative of what actual results of our operations would have been assuming such operations had commenced as of January 1, 1999 and 1998, respectively, nor does it purport to represent the results of operations for future periods.

Pro Forma Condensed Statements of Operations
For the years ended December 31, 1999 and 1998
[In Thousands, Except Share and Per Share Amounts]

	Years Ended	
	<u>December 31,</u>	
	1999	1998
Revenue:		
Percentage Lease Revenue - Related Party	\$ 8,299	\$ 7,346
Other Revenue	125	95
Total Revenue	<u>8,424</u>	<u>7,441</u>
Expenses:		
Interest	1,768	1,442
Land Lease - Related Party	20	20
Taxes and Insurance	546	527
General and Administrative	424	442
Depreciation and Amortization	<u>2,433</u>	<u>2,280</u>
Total Expenses	<u>5,191</u>	<u>4,711</u>
Income Before Minority Interest	3,233	2,730
Income Allocated to Minority Interest	<u>1,985</u>	<u>1,723</u>
Net Income	<u>\$ 1,248</u>	<u>\$ 1,007</u>
Basic Earnings Per Common Share	<u>\$ 0.55</u>	<u>\$ 0.44</u>
Diluted Earnings Per Common Share	<u>\$ 0.50</u>	<u>\$ 0.42</u>
Weighted Average Shares for Basic Earnings Per Share	2,275,000	2,275,000
Weighted Average Shares for Diluted Earnings Per Share	6,480,970	6,480,970

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

[13] Subsequent Events

[A] On February 3, 2000 we entered into an agreement with Lehman Brothers Bank for the refinancing of seven properties currently owned by the Company. The total amount of the loan is \$22.05 million for 10 years with a fixed interest rate of 8.94%. The loan is interest only for the first eighteen months with the principal amortizing over a period of 22 years after the completion of the interest only period.

[B] On February 25, 2000, our Board of Trustees approved the purchase of three hotel properties from the Hersha Affiliates. The acquisitions will be effective as of January 1, 2000. The hotels acquired include a 110 room Hampton Inn & Suites located in Hershey, Pennsylvania, a 107 room full service Best Western located in Indiana, Pennsylvania and a 76 room Comfort Inn located in McHenry, Maryland. The aggregate purchase price of the three hotels was \$11.5 million and was funded through our Line of Credit, the assumption of loans of \$7.0 million and an additional loan of \$2.0 million. The prices paid for these hotels will be adjusted on December 31, 2001 based upon the initial pricing methodology discussed in our financial statements.

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HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 1999
[IN THOUSANDS]

Description	Encumbrances	Land	Initial Costs Buildings and Improvements	Costs Capitalized Subsequent to Acquisition		Land	Gross Amounts Carried at Close of Period		Total	Accumulated Depreciation Buildings and Improvements	Net Book Value Buildings and Improvements	Date of Acquisition	Life Upon Which Latest Income Statement is Computed
				Land	Improvements		Buildings and Improvements	Land					
Holiday Inn, Harrisburg, PA	\$3,247	\$412	\$1,234	\$ -	\$1,442	\$412	\$2,676	\$3,088	\$102	\$2,986	12/15/94	15 to 40	
Holiday Inn, Millsburg, PA	-	42	1,158	45	2,235	87	3,393	3,480	124	3,356	08/15/85	15 to 40	
Holiday Inn, New Columbia, PA	2,499	94	2,510	54	374	148	2,884	3,032	71	2,961	12/01/97	15 to 40	
Holiday Inn Express, Harrisburg, PA	1,024	-	850	-	2,070	-	2,920	2,920	109	2,811	06/15/84	15 to 40	
Holiday Inn Express, Hershey, PA	2,564	426	2,645	249	1,861	675	4,506	5,181	111	5,070	10/01/97	15 to 40	
Clarion Suites, Philadelphia, PA	-	262	1,049	828	3,512	1,090	4,561	5,651	133	5,518	06/30/95	15 to 40	
Clarion Inn & Suites, Harrisburg, PA	2,075	213	1,934	-	-	213	1,934	2,147	16	2,131	03/06/98	15 to 40	
Comfort Inn, Harrisburg, PA	-	-	2,720	175	352	175	3,072	3,247	72	3,175	05/15/98	15 to 40	
Comfort Inn, Denver, PA	-	-	782	-	976	-	1,758	1,758	89	1,669	01/01/88	15 to 40	
Comfort Inn - JFK, Jamaica, NY	-	850	4,093	-	-	850	4,093	4,943	38	4,905	08/11/99	15 to 40	
Hampton Inn, Selinsgrove, PA	2,169	157	2,511	93	1,837	250	4,348	4,598	112	4,486	09/12/96	15 to 40	
Hampton Inn, Carlisle, PA	2,621	300	3,109	97	874	397	3,983	4,380	97	4,283	06/01/97	15 to 40	
Hampton Inn, Danville, PA	2,459	300	2,787	-	-	300	2,787	3,087	25	3,062	08/28/97	15 to 40	
TOTALS	\$18,658	\$3,056	\$27,382	\$1,541	\$15,533	\$4,597	\$42,915	\$47,512	\$1,099	\$46,413			

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
NOTES TO SCHEDULE III
[IN THOUSANDS]

	<u>1999</u>
Reconciliation of Real Estate:	
Balance at Beginning of Year	\$ -
Additions During Year	42,915
Deletions During Year	<u>-</u>
Balance at End of Year	\$ 42,915
Reconciliation of Accumulated Depreciation:	
Balance at Beginning of Year	\$ -
Depreciation for the Year	1,099
Accumulated Depreciation on Deletions	<u>-</u>
Balance at End of Year	\$ 1,099

The aggregate cost of land, buildings and improvements for federal income tax purposes is approximately \$39,177

Depreciation is computed based upon the following useful lives:
Buildings and Improvements 15 to 40 years