



HERSHA HOSPITALITY TRUST

Annual Report
2006



HERSHA HOSPITALITY TRUST
FINANCIAL HIGHLIGHTS
2006

(In thousands, except per share data)

Year Ended December 31,

	2006	2005	2004	2003	2002
HOTEL OPERATING RESULTS ^(a)					
Total Revenues	\$ 259,485	\$ 127,195	\$ 72,076	\$ 38,428	\$ 33,384
Average Daily Rate	\$ 117.91	\$ 106.18	\$ 97.62	\$ 85.52	\$ 81.66
Occupancy	71.75%	71.32%	67.21%	64.80%	63.81%
Revenue Per Available Room	\$ 84.60	\$ 75.73	\$ 65.61	\$ 55.41	\$ 52.11

(a) Pertains to all hotels owned as of year end including the total results of hotels owned in a joint venture structure.

(In thousands except per share data)

Year Ended December 31,

	2006	2005	2004	2003	2002
HERSHA HOSPITALITY TRUST ⁽¹⁾					
OPERATING DATA:					
Total Revenues (Including Discontinued Operations)	\$ 153,887	\$ 89,466	\$ 58,511	\$ 19,324	\$ 14,969
Net Income applicable to Common Shareholders	298	1,377	2,049	785	1,292
Adjusted Funds from Operations (AFFO) ⁽²⁾	29,870	15,567	11,571	7,728	8,293
PER SHARE DATA:					
Basic Earnings Per Common Share	\$ 0.01	\$ 0.07	\$ 0.13	\$ 0.17	\$ 0.51
Diluted Earnings Per Common Share	0.01	0.07	0.13	0.17	0.51
AFFO	0.97	0.67	0.57	0.69	1.09
Distributions to Common Shareholders	0.72	0.72	0.72	0.72	0.72

BALANCE SHEET DATA (as of December 31):

Total Assets	\$ 968,208	\$ 455,355	\$ 261,021	\$ 195,568	\$ 101,516
Total Debt	580,542	256,521	111,846	71,837	65,341
Minority Interest in Partnership	25,933	15,147	16,779	38,971	20,258
Total Shareholder's Equity	331,619	164,703	119,792	71,460	11,378

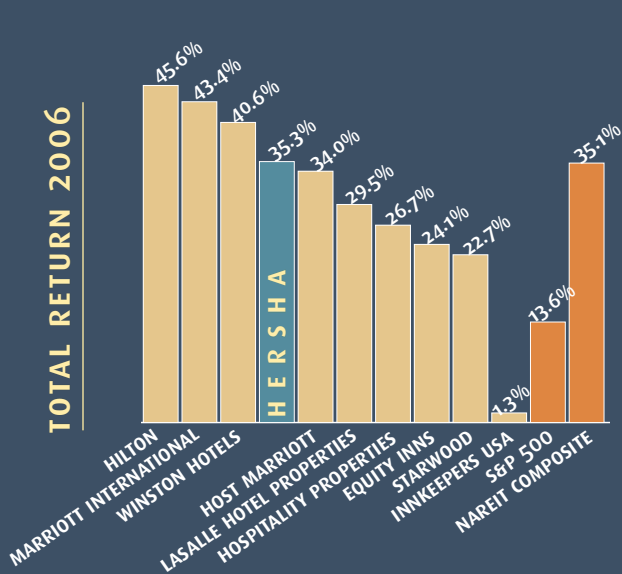
(1) Total revenues consisted primarily of percentage and fixed lease revenues during 2001-2003. The Company terminated eight leases on January 31, 2004 and the remaining six leases as of April 1, 2004.

(2) Funds from Operations (FFO) as defined by NAREIT represents net income (loss) (computed in accordance with generally accepted accounting principles), excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated assets, plus certain non-cash items, such as depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We present Adjusted Funds From Operations (AFFO), which reflects FFO in accordance with the NAREIT definition plus the following additional adjustments: adding back depreciation related to discontinued operations; adding back write-offs of deferred financing costs on debt extinguishment, both for consolidated and unconsolidated properties, adding back amortization of deferred financing costs, adding back non-cash stock expense, adding back our non-cumulative preferred return on consolidated joint ventures, and making adjustments to ground lease payments, which are required by GAAP to be amortized on a straight-line basis over the term of the lease, to reflect the actual lease payment.

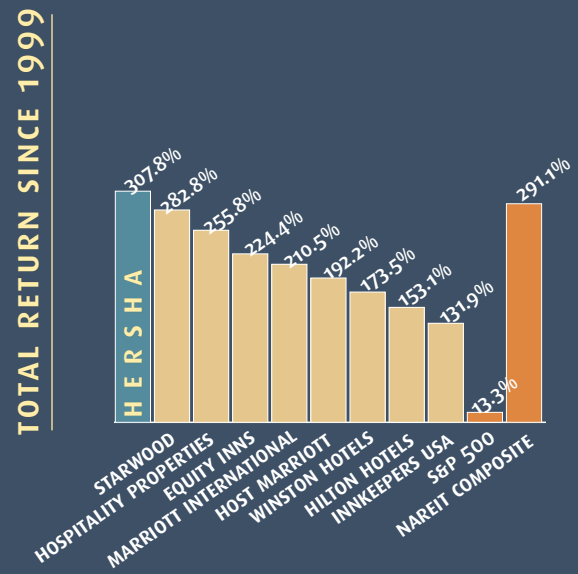
HERSHA HOSPITALITY TRUST (HT)

Hersha Hospitality Trust (HT) is a real estate investment trust (REIT) focused on the acquisition and aggressive management of primarily upscale hotels in metropolitan markets. Hersha trades under the symbol HT on the American Stock Exchange. As of March 1, 2007, the Company owned interests in 71 upper upscale, upscale, and midscale hotels located predominantly in the Northeastern United States.

Qualification as a REIT under the Internal Revenue Code enables the Company to distribute income to shareholders without federal income tax liability to the Company.

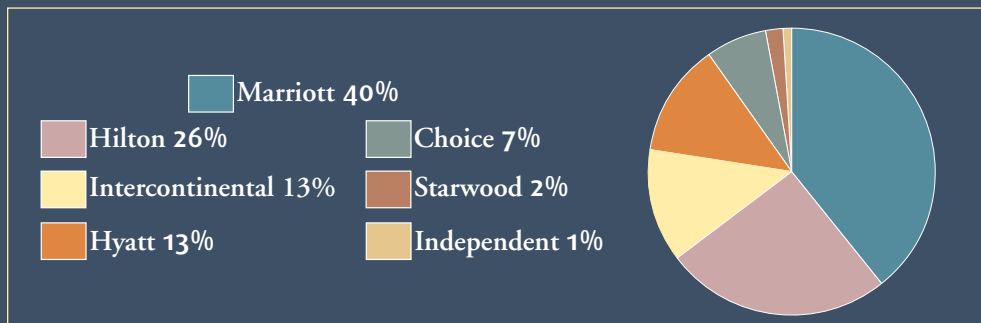


Total Returns from December 31, 2005 through December 31, 2006. Assumes dividends are re-invested at ex-dividend date. Source: FactSet

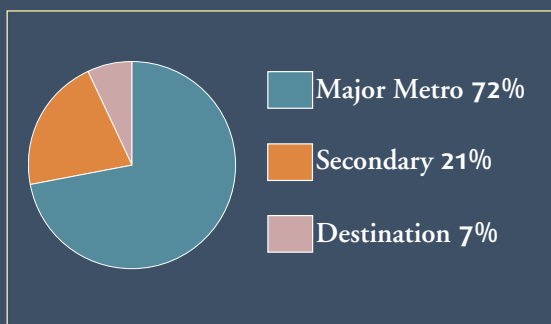


Total Returns from January 26, 1999 through December 31, 2006. Assumes dividends are re-invested at ex-dividend date. Source: FactSet

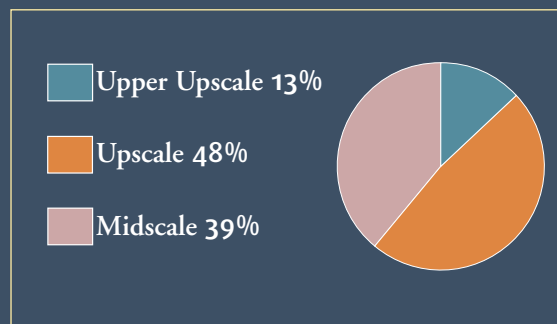
HT PORTFOLIO BY HOTEL BRAND



HT PORTFOLIO BY DESTINATION



HT PORTFOLIO BY MARKET SEGMENT



Hampton Inn Manhattan, Seaport, NY



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DEAR FELLOW SHAREHOLDERS:

Our company had an extraordinary 2006. We delivered strong portfolio growth, significantly improved shareholder liquidity and realized impressive returns through a combination of stock appreciation and a sector-leading dividend yield. Our work of assembling a portfolio of high-quality upscale and mid-scale hotels in the most attractive metropolitan markets in the country has positioned Hersha Hospitality Trust to deliver value to investors now and into the future.

Let's take a look at the many milestones that the Company achieved this past year:

- At the end of 2006 our company's enterprise value reached \$1.1 billion. As of this writing, our enterprise value is closer to \$1.25 billion with ownership interests in 71 hotels. We have realized a 59% compounded annual rate of growth in our enterprise value since our 1999 initial public offering when we maintained an ownership interest in ten hotels,
- Acquired an interest in 24 hotels with 3,528 rooms and an aggregate value of \$532 million in our core markets with high barriers to entry,
- Issued 20.1 million shares of new stock to raise an additional \$202 million of growth capital,
- Forged a strong new relationship with the Global Hyatt family of brands through the purchase of 7 well-situated Hyatt Summerfield Suites hotels; we welcome Global Hyatt to our existing strong brand relationships with Marriott, Hilton, Starwood and Intercontinental Hotel Group,
- Paid our 31st consecutive quarterly dividend since our 1999 IPO, one of the highest yielding and consistent dividends among all publicly traded hotel companies,
- We have substantially removed interest rate risk from our balance sheet by fixing or capping 95% of our debt at a historically low weighted average interest rate of 6.23%, and



HT has now made ten significant hotel investments in New York City - a market that we believe will outperform the industry.

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– We took advantage of current liquidity in the hotel transaction market by selling 4 non-strategic hotels in metro Atlanta, and further allocated our financial and managerial resources to our core, higher growth markets.

Our portfolio is distinguished and highly valuable as a result of our selective market focus, the young average age of our hotels, quality brand partners, and leading managers at and above each property. Our high quality portfolio and our Company's strategy has been validated by our terrific market performance and positions us for further growth in the coming years.

Your interests are well aligned with each of us on your management team. Our management team owns approximately 9% of the Company, collectively making us a top shareholder and beneficiary of our strategy and we as fellow shareholders remain very encouraged by our future prospects.

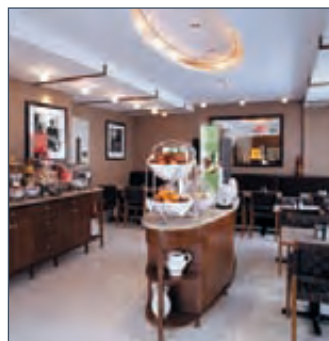
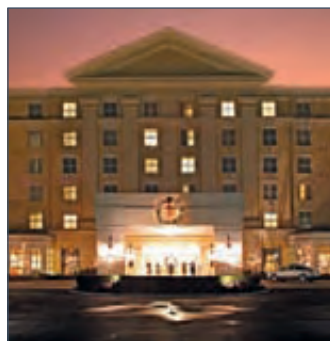
FINANCIAL PERFORMANCE

Our hotels turned in excellent performance in 2006. Our consolidated portfolio, produced

revenue per available room or "RevPAR" growth of 13.8% over the prior year compared to 7.5% growth for the industry as a whole. System-wide, our average daily rate or "ADR", the most profitable component of growth, improved 9.7% from last year while our average occupancy rate grew by 3.7%

Our consolidated portfolio produced gross operating profit margins of 44.2% in 2006, versus 42.2% for the full year 2005. Our earnings before interest, taxes, depreciation and amortization or "EBITDA" from our consolidated portfolio approximately doubled to \$50.9 million. More than a quarter of our EBITDA came from hotels that are less than 3 years old, which means that we can expect higher growth from these assets relative to the broader portfolio as these properties continue to ramp-up to stabilized occupancy and ADR levels. Overall, the youthfulness of our portfolio will enable us to drive stronger growth relative to our peer set.

Our adjusted funds from operations or "AFFO" for the full year benefited both from our same store internal growth and our growth through acquisitions. For the full year 2006, our AFFO increased an extraordinary 45% to \$0.97 per





Hampton Inn Manhattan - Herald Square, New York, NY



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share compared to \$0.67 for the full year 2005.

FOCUSED COMPANY-BUILDING

All of us at Hersha subscribe to the belief that great value is created with a simple strategy executed exceedingly well. Our strategy is simply to provide superior shareholder returns through appreciation in the value of the hotels we purchase, and to extract leading FFO growth through our deep understanding and careful management of our markets and assets. We deliver on this strategy by executing on a precisely targeted plan to acquire and own high-quality, branded hotels in urban and primary suburban markets and to manage them with rigorous, value-added expertise.

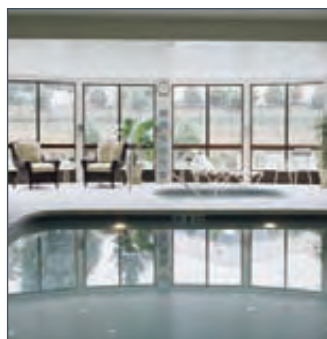
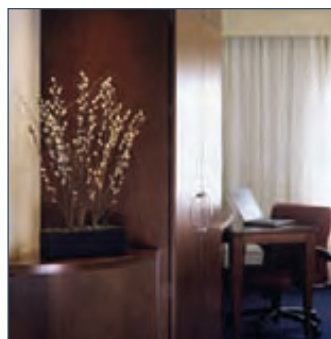
DISCIPLINED ACQUISITIONS PROGRAM

Although we have been aggressively acquiring hotels across the last several years, we have remained true to our plan of acquiring best-in-class hotels in high barrier to entry metro markets. At this writing, our portfolio of hotels derives 38% of its EBITDA from New York City, 16% from Boston, 13% from Philadelphia and

11% from the Washington, DC Metro area. Said another way, almost 80% of our earnings come from the 4 largest metropolitan markets in the northeast corridor. These are the most densely populated markets in the United States with diverse demand generators and high average daily rate potentials; and contribute significantly to our delivering the highest margins among our peers.

We purchased 6 hotels in the New York City metro last year, adding to our already strong concentration there. The restriction of new supply in this market suggests an extended period of strong performance for our hotels in this cluster. The fully ramped-up hotels that we own there are generating EBITDA margins approaching 50%, which is remarkable when considering 35% average EBITDA margins among our peers.

Our acquisition of the attractive Hyatt Summerfield Suites portfolio gave us continued concentration in our core markets, and created the opportunity for us to enter two new attractive markets: the San Francisco Bay area and Scottsdale, Arizona. We studied these markets very carefully and were pleased to learn that both have similar supply demand dynamics to the



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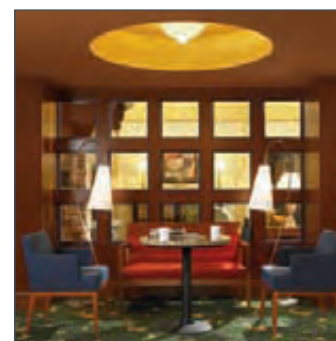
northeastern markets that we know so well. In northern California, the resurgence of the technology led corporate sector and in Scottsdale, the continued corporate and residential growth driven by the desirable lifestyle in this market, present strong fundamentals to drive hotel revenues. Supply is difficult to come by in either of these markets due largely to the scarcity of land resulting from densely developed in-fill markets and restrictive entitlement processes that are specifically designed to avoid ill-conceived development and sprawl. We are expecting double digit revenue growth at our properties in both of these markets in 2007.

In 2006, we also focused on acquiring more extended-stay hotels and bought 3 Marriott Residence Inns, 7 Hyatt Summerfield Suites, and an interest in a Hilton Homewood Suites. Almost a third of our portfolio is now made up of extended-stay hotels. We have found this segment to command strong margins and weather economic cycles better than transient hotels. We therefore expect our concentration in extended-stay hotels to provide consistent cash flows for the Company during varying market conditions.

We currently have \$75 million invested in 7 new development projects in New York City as mezzanine or mortgage loan financing under our development loan program. Our capital that is invested in this program earns an average of 10% in interest income during the development and construction phase of each project and further secures for the Company a first right of offer to purchase the underlying assets from our development partners for two years from the date they open a subject hotel. The interest earnings from these loans is significant and accretive to our earnings, but more importantly, the opportunity to buy these assets in an off-market transaction in the difficult to source New York City market enables us to potentially acquire very new and high yielding assets without bearing development risk.

VALUE-ADDED ASSET MANAGEMENT

An integral component of our strategy is driving continued revenue growth and profitability from our existing portfolio through aggressive asset management. Our position as the leading owner of multi-branded upscale and mid-scale hotels in high barrier to new competition markets and our



Marriott Downtown Hartford, Hartford, Connecticut



Courtyard by Marriott, Brookline, Massachusetts



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unique cluster based ownership strategy creates a unique opportunity to benchmark similar hotels to identify best practices, value enhancement tactics and efficiencies that can be used to better manage our hotels for internal earnings growth. We will continue our aggressive revenue management programs to drive our managers to optimize top line performance and identify synergies that can lead to higher profitability.

Our management of expenses is and remains a key priority. The quality of our hotels and the markets within which they are located creates high guest expectations and, therefore, we must work very closely with our operators to improve productivity and generate savings that do not impact the perceived quality of our hotels or the satisfaction of our guests. Nonetheless, our quality assets and the variety of demand generators that support them allow our managers to drive top line revenues leading to meaningful margin growth and value creation for shareholders that more than offsets increasing operating costs.

CONSISTENT EXECUTION

The business that we have built across the last

several years is testament that our vision and strategy is intact. Our dynamic growth coupled with our financial returns that have consistently outperformed the sector is a direct result of our assembled portfolio of high-quality, branded hotels in some of the country's great cities. We continue to believe that our portfolio and our strategy will continue to generate long-term value. The coming year is expected to deliver strong demand growth and limited new supply in our segments and our markets — we expect to take advantage of this opportunity and strive to deliver some of the best results in our history.

As we mentioned, your management team remains one of the largest shareholders in Hersha Hospitality Trust and together with you, we look forward to strong returns next year and for the years to come.

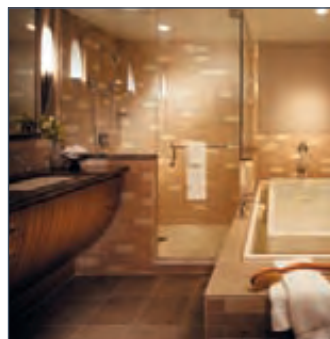
Best regards,



Hasu P. Shah
Chairman



Jay H. Shah
Chief Executive Officer



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HERSHA HOSPITALITY TRUST PROPERTIES



NEW YORK & NEW JERSEY

NEW YORK CITY METRO AREA

HAMPTON INN, MANHATTAN/CHELSEA
HAMPTON INN MANHATTAN/HERALD SQUARE
HAMPTON INN, MANHATTAN/SEAPORT ¹⁾
HOLIDAY INN EXPRESS, MANHATTAN/MADISON SQUARE ¹⁾
HILTON GARDEN INN, JFK INTERNATIONAL AIRPORT
HYATT SUMMERFIELD SUITES, WHITE PLAINS
HOLIDAY INN EXPRESS, CHESTER ¹⁾
HAMPTON INN BROOKHAVEN, LONG ISLAND/FARMINGVILLE
HOLIDAY INN EXPRESS, LONG ISLAND/HAUPPAUGE

NEW JERSEY

HILTON GARDEN INN, EDISON/RARITAN CENTER
HAMPTON INN, LINDEN/NEWARK AIRPORT
COURTYARD BY MARRIOTT, EWING/PRINCETON
HYATT SUMMERFIELD SUITES, BRIDGEWATER
FAIRFIELD INN BY MARRIOTT, MT. LAUREL

NEW ENGLAND

BOSTON METRO AREA

COURTYARD BY MARRIOTT, BROOKLINE
COURTYARD BY MARRIOTT, SOUTH BOSTON
SHERATON FOUR POINTS, BOSTON/LOGAN AIRPORT
RESIDENCE INN BY MARRIOTT, FRAMINGHAM
HOLIDAY INN EXPRESS, CAMBRIDGE
HOLIDAY INN EXPRESS, SOUTH BOSTON
HAWTHORN SUITES, FRANKLIN
RESIDENCE INN BY MARRIOTT, NORWOOD
RESIDENCE INN BY MARRIOTT, NORTH DARTMOUTH
COMFORT INN, NORTH DARTMOUTH
COURTYARD BY MARRIOTT, WARWICK, RI

CONNECTICUT

MYSTIC MARRIOTT HOTEL AND SPA, GROTON
RESIDENCE INN BY MARRIOTT, MYSTIC
MARRIOTT DOWNTOWN, HARTFORD
HILTON HOTEL, HARTFORD
HILTON GARDEN INN, HARTFORD SOUTH/ GLASTONBURY
HOMWOOD SUITES, HARTFORD SOUTH/GLASTONBURY
SPRINGHILL SUITES, WATERFORD
RESIDENCE INN BY MARRIOTT, SOUTHTON
COURTYARD BY MARRIOTT, NORWICH
RESIDENCE INN BY MARRIOTT, DANBURY

MID-ATLANTIC REGION

PHILADELPHIA METRO AREA

HAMPTON INN, CENTER CITY PHILADELPHIA
COURTYARD BY MARRIOTT, LANGHORNE/OXFORD VALLEY
RESIDENCE INN BY MARRIOTT, LANGHORNE/OXFORD VALLEY ¹⁾
HOLIDAY INN EXPRESS, LANGHORNE/OXFORD VALLEY
HOLIDAY INN EXPRESS, KING OF PRUSSIA/VALLEY FORGE
MAINSTAY SUITES, KING OF PRUSSIA/VALLEY FORGE
SLEEP INN, KING OF PRUSSIA/VALLEY FORGE
HOLIDAY INN EXPRESS, FRAZER/MALVERN
FAIRFIELD INN & SUITES, ALLENTOWN/BETHLEHEM

PENNSYLVANIA

HAMPTON INN & SUITES, HERSHEY
HOLIDAY INN EXPRESS, HERSHEY
COMFORT INN, WEST HANOVER/HERSHEY
HILTON GARDEN INN, GETTYSBURG
RESIDENCE INN BY MARRIOTT, CARLISLE ¹⁾
HOLIDAY INN CONFERENCE CENTER, HARRISBURG WEST
HOLIDAY INN EXPRESS HOTEL AND SUITES, HARRISBURG
HAMPTON INN, CARLISLE
COURTYARD BY MARRIOTT, SCRANTON
HAMPTON INN, DANVILLE
HAMPTON INN, SELINGSGROVE
HOLIDAY INN EXPRESS, NEW COLUMBIA
WILMINGTON, DE

COURTYARD BY MARRIOTT, WILMINGTON
INN AT WILMINGTON, WILMINGTON

WASHINGTON D.C. METRO AREA

RESIDENCE INN BY MARRIOTT, TYSON'S CORNER, VA
COURTYARD BY MARRIOTT, ALEXANDRIA, VA
RESIDENCE INN BY MARRIOTT, GREENBELT, MD
HYATT SUMMERFIELD SUITES, GAITHERSBURG, MD
FAIRFIELD INN, LAUREL, MD
MAINSTAY SUITES, FREDERICK, MD
COMFORT INN, FREDERICK, MD
VIRGINIA / NORTH CAROLINA
RESIDENCE INN BY MARRIOTT, WILLIAMSBURG, VA
SPRINGHILL SUITES, WILLIAMSBURG, VA
HYATT SUMMERFIELD SUITES, CHARLOTTE, NC

WEST COAST

CALIFORNIA / ARIZONA

HYATT SUMMERFIELD SUITES, PLEASANT HILL/WALNUT CREEK, CA
HYATT SUMMERFIELD SUITES, PLEASANTON/DUBLIN, CA
HYATT SUMMERFIELD SUITES, SCOTTSDALE, AZ

¹⁾ Acquired subsequent to December 31, 2006.

HERSHA HOSPITALITY TRUST

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BOARD OF TRUSTEES

Hasu P. Shah *Jay H. Shah*
Chairman *Chief Executive Officer*
Hersha Hospitality Trust *Hersha Hospitality Trust*

Thomas S. Capello *Michael A. Leven*
Founder & Principal *Vice Chairman*
First Capital Equities *Marcus Foundation*

John M. Sabin *Donald J. Landry*
CFO and General Counsel *Former CEO and President*
Phoenix Health Systems, Inc. *Sunburst Hospitality, Inc.*

K.D. Patel
Director
Hersha Hospitality Management, L.P.

CORPORATE OFFICERS

Jay H. Shah *Neil H. Shah*
Chief Executive Officer *President & Chief Operating Officer*

Ashish R. Parikh *Michael R. Gillespie*
Chief Financial Officer *Chief Accounting Officer*

William J. Walsh *Robert C. Hazard III*
Vice President of Asset Management *Vice President*
of Acquisitions & Development

David L. Desfor *Kiran P. Patel*
Treasurer *Corporate Secretary*

CORPORATE HEADQUARTERS

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Facsimile: (717) 774-7383

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Certified Public Accountants
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American Stock Transfer & Trust Company
10150 Mallard Creek Drive, Suite 307
Charlotte, NC 28262
Telephone: (800) 829-8432

LEGAL COUNSEL

Hunton & Williams
Riverfront Plaza
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Richmond, Virginia 23219
Telephone: (804) 788-8200

COMMON STOCK INFORMATION

The Common Stock of Hersha Hospitality Trust is traded on the American Stock Exchange under the Symbol "HT"



WWW.HERSHA.COM