HERSHA HOSPITALITY TRUST

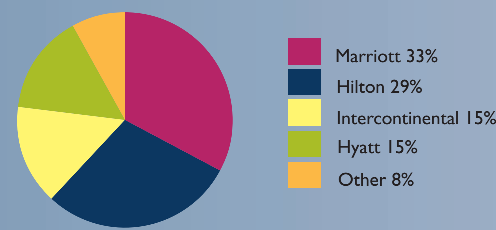
Annual Report 2008

HERSHA

HERSHA HOSPITALITY TRUST (HT)

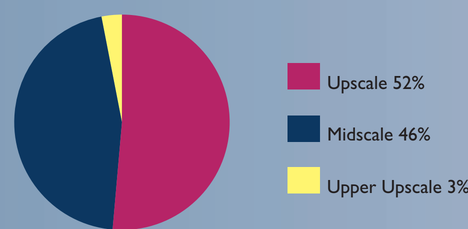
Hersha Hospitality Trust (HT) is a real estate investment trust (REIT) focused on the acquisition and aggressive management of primarily select service and extended stay hotels in metropolitan markets. Hersha trades under the symbol HT on the New York Stock Exchange. As of December 31, 2008, the Company owned interests in 76 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.

Hersha Portfolio by Hotel Brand(1)



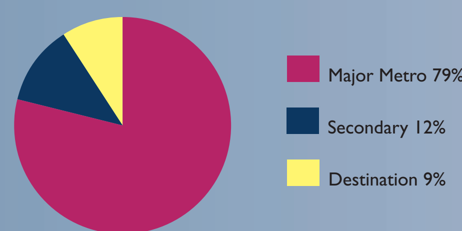
(1) Based on pro-rata ownership share of 2008 EBITDA excluding preferred returns.

Hersha Portfolio by Market Segment(2)



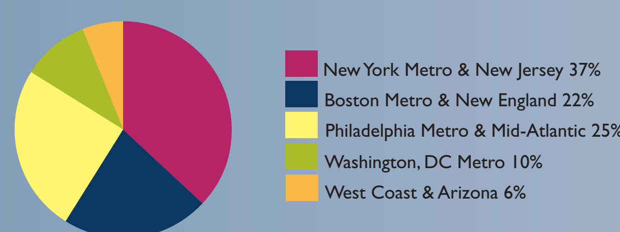
(2) Based on pro-rata ownership share of 2008 EBITDA excluding preferred returns.

Hersha Portfolio by Destination(3)



(3) Based on pro-rata ownership share of 2008 EBITDA excluding preferred returns.

Hersha Portfolio by Location(4)



(4) Based on pro-rata ownership share of 2008 EBITDA excluding preferred returns.

2008 *Financial Highlights*

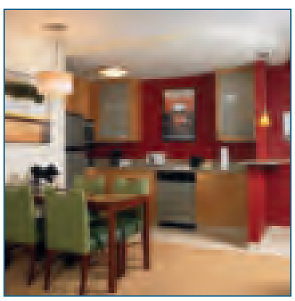
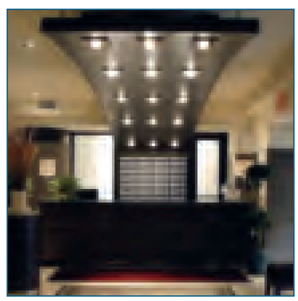
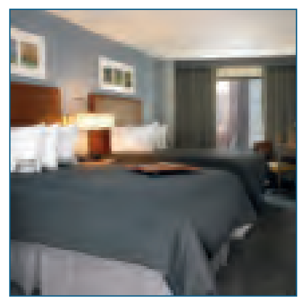
(In thousands, except per share data)	Year Ended December 31,				
	2008	*2007*	*2006*	*2005*	*2004*
HOTEL OPERATING RESULTS [a]					
Total Revenues	$ 378,338	$ 366,314	$ 259,502	$ 127,170	$ 72,076
Average Daily Rate	$ 139.48	$ 134.12	$ 117.91	$ 106.18	$ 97.62
Occupancy	71.44%	73.07%	71.75%	71.32%	67.21%
Revenue Per Available Room	$ 99.64	$ 98.00	$ 84.60	$ 75.73	$ 65.61

(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,				
	2008	*2007*	*2006*	*2005*	*2004*
HERSHA HOSPITALITY TRUST					
Operating Data: *(Excluding Impairment Charges)* (1)					
Total Revenues (Including Discontinued Operations)	$ 265,399	$ 248,813	$ 153,887	$ 89,466	$ 58,511
Net Income applicable to Common Shareholders	5,829	13,047	298	1,377	2,049
Adjusted Funds from Operations (2)	61,308	56,001	29,888	15,567	11,571
Per Share Data: *(Excluding Impairment Charges)* (1)					
Basic Earnings Per Common Share	$ 0.07	$ 0.22	$ (0.04)	$ 0.04	$ 0.12
Diluted Earnings Per Common Share	0.07	0.22	(0.04)	0.04	0.12
AFFO	1.15	1.21	0.97	0.67	0.57
Distributions to Common Shareholders	0.72	0.72	0.72	0.72	0.72
Balance Sheet Data: *(as of December 31)*					
Total Assets	$ 1,179,455	$ 1,067,607	$ 968,208	$ 455,355	$ 261,021
Total Debt	743,781	663,008	580,542	256,521	111,846
Minority Interest in Partnership	53,520	42,845	25,933	15,147	16,779
Total Shareholder's Equity	349,963	330,405	331,619	164,703	119,792

(1) Operating and Per Share Data exclude charges recorded during 2008 relating to an impairment loss on one of our development loans as well as an investment in one of our unconsolidated joint ventures.

(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 partnerhips 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 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 impairment charges, adding back FFO attributed to our partners in 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.

Fellow Shareholders:

Although 2008 began with uncertainty and the possibility of a recession of ordinary proportions, the economic crisis that unfolded in the latter part of the year altered the U.S. economic landscape in dramatic fashion. With the fall of the financial sector, the economy retreated to a primitive, binary place where only risk and safety mattered. Managerial conservatism and defensive attributes of business models carried little weight as we saw all business sectors with otherwise dissimilar risk profiles, treated with similar disregard. The trifecta of the credit, liquidity and confidence crisis sacked the public equity markets with an intensity and velocity that was unprecedented in the experience of this country's business leadership.

Against this troubled backdrop, Hersha's portfolio demonstrated its resiliency by delivering defensive outperformance for 2008. Our core consolidated portfolio of value-oriented, focused service and upscale extended stay brands is strategically situated in high barrier to entry, diverse urban and suburban markets in the northeastern U.S. Our total and

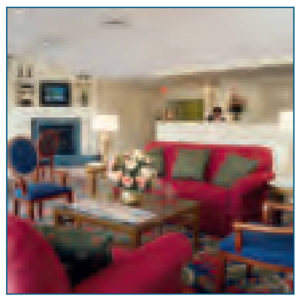
Hampton Inn, Philadelphia, PA

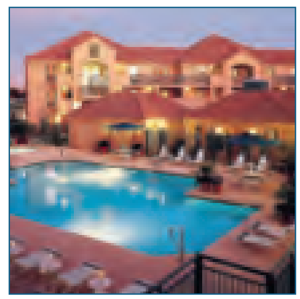

Residence Inn, Langhorne, PA

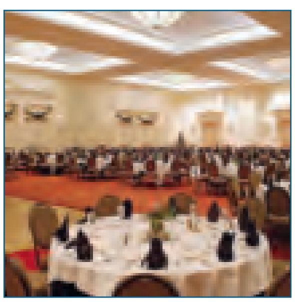
same store consolidated portfolio achieved 1.6% and 1.1% growth in revenue per available room (RevPAR), respectively, compared to negative RevPAR growth rates across the broader hotel sector.

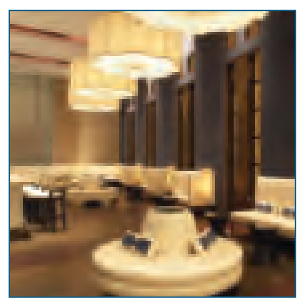
We made the decision in the Spring of 2008 to issue equity to further fortify our balance sheet in preparation for a contraction. We issued 6.6 million common shares and 2.5 million additional operating partnership units in the first half of 2008. For the year, the Company generated $1.15 of AFFO per diluted common share down slightly from $1.22 a year ago.

Across the last several years, Hersha has assembled a high quality portfolio of young hotels in high barrier to entry markets that are affiliated with industry leading brands such as







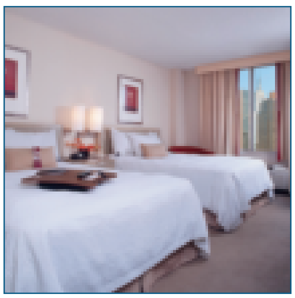


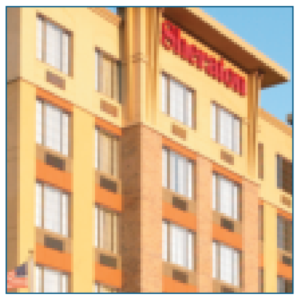
Marriott, Hilton and Hyatt. Our hotels are mid priced and offer compelling value to guests, a true competitive advantage that is of particular importance today. The hotels are in locations with varied and robust demand generators, extensive travel infrastructure and a strong mix of corporate and leisure travelers. We typically own hotels of a modest size that can be optimally yield managed even during periods of constrained demand. These factors combine to create less volatility in our cash flows, leading to a more stable business platform.

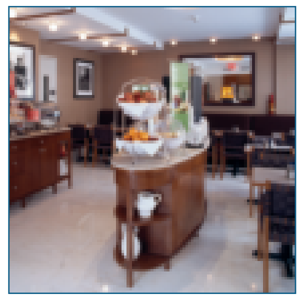
Our acquisitions underwriting follows a strict discipline and in recent years we have become even more selective. We remained conservative as hotel trading values were skewed by new entrants in the marketplace with unsettling investment objectives. These temporary players came bound with cyclical momentum, plentiful equity, inexpensive debt and aggressive underwriting standards. The ensuing frenzy disrupted the otherwise orderly hotel transaction market.

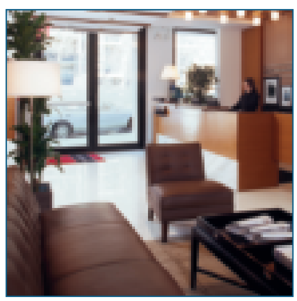
We slowed our acquisitions activity considerably in 2008 buying only six hotels. Each hotel had characteristics that made it defensive and resilient. The hotels added to our portfolio's balance between urban and suburban markets and serve demand generators that are less susceptible to economic contractions such as military bases and educational institutions. Our portfolio is purposefully diversified to include exposure to markets with less volatile performance and a variety of demand generators. During expansion cycles, the stability of suburban hotels goes largely unrecognized, but our experience shows that during downturns, the consistent contribution of these hotels to our FFO is strategically very desirable.

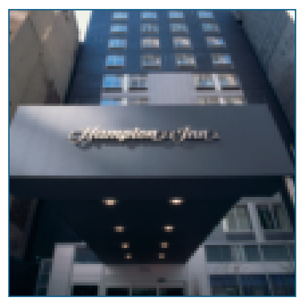
Our portfolio remains the youngest in the public hotel sector. In addition to enjoying











above portfolio average growth as these hotels ramp up, the youthfulness of the portfolio affords us the opportunity to responsibly save on expensive capital expenditures during this liquidity constrained time. Additionally, guests in our segment prefer newer hotels allowing us to drive additional market share to our hotels during a contraction and allowing us to better leverage the recovery when demand eventually returns.

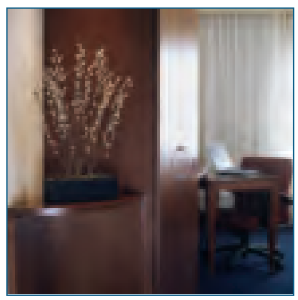
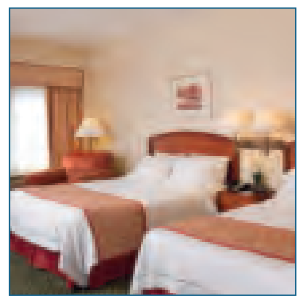
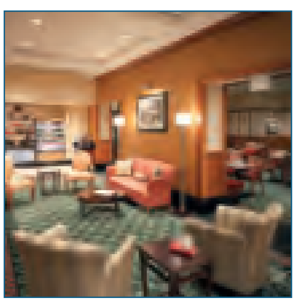
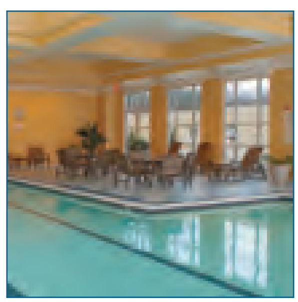
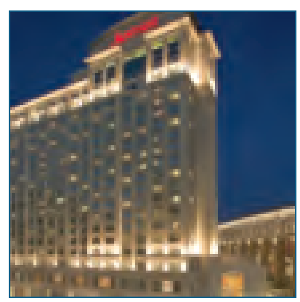
Though you may already be aware, it is worth mentioning again here that 80% of the portfolio is comprised primarily of market leading, branded focused service and upscale extended stay hotels affiliated with the most highly recognized value oriented brands in the market. Our experience has shown that this segment of hotels offers a value proposition and broad distribution platform that is viewed favorably by corporate and leisure guests during periods of economic dislocation. We have witnessed a meaningful "trade down" effect during past contractions when typical luxury or full service hotel customers are compelled by corporate travel policies or their personal sensitivities to seek out

Residence Inn, Williamsburg, VA

Duane Street Hotel - Tribeca, New York, NY reasonably priced overnight accommodations for their travel.

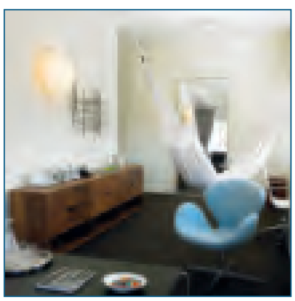
Hersha's value proposition is supported by the strength of our financial position. Our balance sheet strategy avoided overleveraging the Company. We took advantage of inexpensively priced debt, but maintained overall leverage at healthy and sustainable levels. We have no meaningful debt maturities until 2013. Additionally in 2008, the Company raised $65 million in equity and increased its credit line from $100 million to $135 million giving considerable support to our liquidity position. We also extended the term of the credit facility for another three years and secured an additional one year extension option beyond the base term.

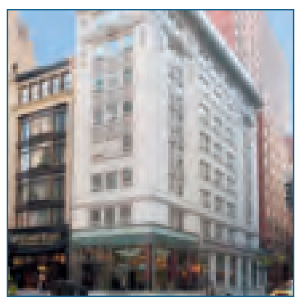
Our model and our portfolio performance enabled our paying a consistent quarterly dividend during 2008 making Hersha the highest dividend yielding hotel company in the sector. You may recall that we were one of only two companies that did not cut its dividend in the aftermath of 9/11. We believe that our consistent dividend provides our shareholders some peace of mind and a base level of return through the inevitable cycles of the economy. As we move forward during this uncertain time, we will continue to review our dividend payout quarterly to ensure that we are able to pay it responsibly without negatively impacting our cash position.

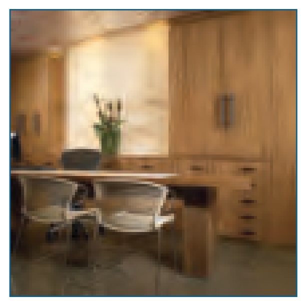







An additional factor in our outperformance in 2008 and what will prove to be a significant driver for our success in the eventual recovery is the experienced and passionate management teams that we are privileged to lead. In a time of unprecedented uncertainty, management expertise becomes all the more critical as the playing field may shift on a day to day basis. Our executive management team has a 30 year tradition of owning and operating hotels and 10 years of experience with the public capital markets. The operators that we engage to manage our hotels are each best in class regional companies that are experts in day to day, multi-unit operations. Our current asset management and operational strategy is based on taking full advantage of the control and responsiveness of our franchisee managed hotel model as compared to the limited alignment often experienced at brand managed hotels. The increased responsiveness and limited fixed costs in our model allow us to defend against margin deterioration to a degree with which most hotel companies cannot compete. Our cost containment programs, will allow us to post strong margin performance despite the weak demand environment.

Hersha is certainly not immune to the recessionary pressures that the nation is facing, but we feel that our battle tested and results driven management team will navigate our portfolio of hotels through the rapidly changing market conditions and challenging objectives during this downturn. We readily admit that we are operating with the most limited visibility that we have ever experienced, but we are also confident that in time visibility will return and eventually the economy will recover. Until then, we have made it our priority to defend our margins, drive market share and to place ourselves in a position of strength for when we emerge on the other side of the turmoil.







Collectively, management and members of the board of trustees are among the largest shareholders of the company and we continue to add to our ownership positions. We continue to increase our alignment with our public shareholders because we are encouraged by the company's investment proposition and believe that it is well positioned to deliver market leading returns.

We appreciate having you as fellow shareholders and value the confidence that you have placed in us. We will continue to update you on our progress throughout the year.

Jay H. Shah
Chief Executive Officer

Neil H. Shah
Chief Operating Officer

NU Hotel, Brooklyn, NY

Hersha Hospitality Properties List (1)

New York & New Jersey

New York Metro Area
Duane Street Hotel, Manhattan/Tribeca
Hotel 373 Fifth Avenue, Manhattan/Midtown
Hampton Inn, Manhattan/Chelsea
Hampton Inn, Manhattan/Herald Square
Hampton Inn, Manhattan/Seaport
Holiday Inn Express, Manhattan/Madison Square
NU Hotel, Brooklyn
Sheraton Hotel, JFK International Airport
Hilton Garden Inn, JFK International Airport
Hyatt Summerfield Suites, White Plains
Hampton Inn Brookhaven, Long Island/Farmingville
Holiday Inn Express, Long Island/Hauppauge
Holiday Inn Express Hotel and Suites, Chester

New Jersey
Courtyard by Marriott, Ewing/Princeton
Hyatt Summerfield Suites, Bridgewater
Hilton Garden Inn, Edison/Raritan Center

New England

Boston Metro Area
Courtyard by Marriott, Boston/Brookline
Courtyard by Marriott, South Boston
Holiday Inn Express, Cambridge
Holiday Inn Express, South Boston
Sheraton Four Points, Boston/Logan Airport
Residence Inn by Marriott, Framingham
Residence Inn by Marriott, Norwood
Hawthorn Suites, Franklin

Massachusetts/Rhode Island
Residence Inn by Marriott, North Dartmouth
Comfort Inn, North Dartmouth
Courtyard by Marriott, Warwick, RI
Hampton Inn, Smithfield, RI

Connecticut
Marriott Downtown, Hartford
Hilton Hotel, Hartford
Hilton Garden Inn, Glastonbury
Homewood Suites, Glastonbury
Mystic Marriott Hotel and Spa, Groton
Residence Inn by Marriott, Mystic
SpringHill Suites, Waterford
Residence Inn by Marriott, Southington
Courtyard by Marriott, Norwich
Residence Inn by Marriott, Danbury
Holiday Inn, Norwich

Mid-Atlantic

Philadelphia Metro Area/Delaware
Hampton Inn, Center City Philadelphia
Courtyard by Marriott, Langhorne/Oxford Valley
Residence Inn by Marriott, Langhorne/Oxford Valley
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
Courtyard By Marriott, Wilmington
Inn at Wilmington, Wilmington

Pennsylvania
Hampton Inn & Suites, Hershey
Holiday Inn Express, Hershey
Fairfield Inn & Suites, Allentown/Bethlehem
Comfort Inn, West Hanover/Hershey
Hilton Garden Inn, Gettysburg
Residence Inn by Marriott, Carlisle
Holiday Inn Express Hotel and Suites, Harrisburg
TownePlace Suites, Harrisburg
Hampton Inn, Carlisle
Courtyard by Marriott, Scranton
Hampton Inn, Danville
Hampton Inn, Selinsgrove
Holiday Inn Express, New Columbia

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
Holiday Inn Express, Camp Springs, 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
Hyatt Summerfield Suites, Pleasant Hill/Walnut Creek, CA
Hyatt Summerfield Suites, Pleasanton/Dublin, CA

Arizona
Hyatt Summerfield Suites, Scottsdale, AZ

(1) ***HT Properties Listing as of March 1, 2009***

2008 Financial Statements

HERSHA HOSPITALITY TRUST (HT)

HERSHA

HERSHA HOSPITALITY TRUST
CONSOLIDATED FINANCIAL STATEMENTS

INDEX

The Annual Report contains excerpts from our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, and substantially conforms with the version filed with the Securities and Exchange Commission ("SEC"). However, the Form 10-K also contains additional information. For a free copy of our Form 10-K, please contact:

Investor Relations
Hersha Hospitality Trust
44 Hersha Drive
Harrisburg, PA 17102

Our Form 10-K and other filings with the SEC are also available on our website, www.hersha.com. The most recent certifications by our chief executive officer and chief financial officer pursuant to the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements containing the words, "believes," "anticipates," "expects" and words of similar import. Such forward-looking statements relate to future events, our future financial performance, and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this report including, but not limited to those discussed in the sections entitled "Risk Factors," "Growth Strategy" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" that could cause actual results to differ. We disclaim any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments, except as required by law.

PART I

Item 1. Business

OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland statutory real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the New York Stock Exchange under the symbol "HT". We invest primarily in institutional grade hotels in central business districts, primary suburban office markets and stable destination and secondary markets in the Northeastern United States and select markets on the West Coast. Our primary strategy is to continue to acquire high quality, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers to entry in the Northeastern United States and other markets with similar characteristics. We are structured as a real estate investment trust ("REIT") for U.S. federal income tax reporting purposes.

As of December 31, 2008, our portfolio consisted of 58 wholly owned limited and full service properties and various interests in 18 limited and full service properties owned through joint venture investments. Of the 18 limited and full service properties owned through our investment in joint ventures investments, three are consolidated. These 76 properties, with a total of 9,556 rooms, are located in Arizona, California, Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island and Virginia and operate under leading brands, such as Marriott ®, Courtyard by Marriott ®, Residence Inn ®, Fairfield Inn ®, Springhill Suites ®, TownePlace Suites ®, Hilton ®, Hilton Garden Inn ®, Hampton Inn ®, Homewood Suites ®, Hyatt Summerfield Suites ®, Holiday Inn ®, Holiday Inn Express ®, Comfort Inn ®, Mainstay Suites ®, Sleep Inn ®, Four Points by Sheraton ®, Sheraton Hotel ®, and Hawthorn Suites ®. In addition, we own several hotels which operate as independent boutique hotels.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership, or HHLP, for which we serve as general partner. Our hotels are managed by qualified independent management companies, including Hersha Hospitality Management, L.P., or HHMLP. HHMLP is a private management company owned by certain of our trustees, officers and other third party investors. We have leased all of our wholly owned hotels to 44 New England Management Company, or 44 New England, our wholly-owned taxable REIT subsidiary, or TRS. In addition, all of the hotels we own through investments in joint ventures are leased to TRSs owned by the respective venture or to corporations owned in part by our wholly owned TRS.

AVAILABLE INFORMATION

Our address is 44 Hersha Drive, Harrisburg, PA 17102. Our telephone number is (717) 236-4400. Our Internet website address is: *www.hersha.com*. We make available free of charge through our website our code of ethics, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. The information available on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

INVESTMENT IN HOTEL PROPERTIES

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

- working together with our hotel management companies to increase occupancy levels and revenue per available room, or "RevPAR", through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and
- positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale, mid-scale and extended-stay lodging segment, which we believe can be expected to follow from improving economic conditions, by managing costs and thereby maximizing earnings.

As of December 31, 2008, we had 58 wholly owned limited and full service properties, with a total of 6,514 rooms.

INVESTMENT IN JOINT VENTURES

In addition to the direct acquisition of hotels, we may make investments in hotels through joint ventures with strategic partners. We seek to identify acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators.

As of December 31, 2008, we maintain ownership interests in 18 hotels with a total of 3,042 rooms through joint ventures with third parties. Of the 18 hotels owned through interests in joint ventures, three are consolidated.

DEVELOPMENT LOANS AND LAND LEASES

We take advantage of our relationships with hotel developers, including entities controlled by our officers or affiliated trustees, to identify development and renovation projects that may be attractive to us. While these developers bear the risk of construction, we invest in hotel development projects by providing secured first mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. In many instances, we maintain a first right of refusal or right of first offer to purchase, at fair market value, the hotel for which we have provided development loan financing or land leases.

As of December 31, 2008, we had an investment of $81.5 million in loans to eleven hotel development projects and a net investment of $23.4 million in three parcels of land leased to hotel developers.

ACQUISITIONS

Our primary growth strategy is to selectively acquire high quality, upper- upscale, upscale, mid-scale and extended-stay hotels in metropolitan markets with high barriers-to-entry. 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. We believe that current market conditions are creating opportunities to acquire hotels at attractive prices. In executing our disciplined acquisition program, we will consider acquiring hotels that meet the following additional criteria:

- nationally-franchised hotels operating under popular brands, such as Marriott Hotels & Resorts, Hilton Hotels, Courtyard by Marriott, Residence Inn by Marriott, Spring Hill Suites by Marriott, Hilton Garden Inn, Homewood Suites by Hilton, Hampton Inn, Sheraton Hotels & Resorts, DoubleTree, Embassy Suites, Hyatt Summerfield Suites, TownePlace Suites and Holiday Inn Express;
- hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes; and
- hotels in our target markets where we can realize operating efficiencies and economies of scale.

In the ordinary course of our business, we are actively considering hotel acquisition opportunities. Since our initial public offering in 1999, we have acquired, wholly or through joint ventures, a total of 84 hotels, including 27 hotels acquired from entities controlled by our officers or trustees. Of the 27 acquisitions from these entities, 24 were newly-constructed or newly-renovated by these entities prior to our acquisition. Only independent trustees vote on related party acquisitions, and a majority must approve the terms of all related party asset purchases.

DISPOSITIONS

We will evaluate our hotels on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management's forecast and review of the cash flow potential for the hotel and re-deploy the proceeds into debt reduction, development loans or acquisitions of hotels. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management's forecast of the strength of the hotel's cash flows and its ability to remain accretive to our portfolio. Our decision to sell an asset is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by our Board of Trustees, including our independent trustees. A majority of the independent trustees must approve the terms of all asset sales. Since our initial public offering in 1999, we have sold a total of 18 hotels.

FINANCING

The relative stability of the mid-scale and upscale segment of the limited service lodging industry allows us to increase returns to our shareholders through the prudent application of leverage. Our debt policy is to limit indebtedness to less than 67% of the fair market values at the time of acquisition for the hotels in which we invest. We may employ a higher amount of leverage at a specific hotel to achieve a desired return when warranted by that hotel's historical operating performance and may use greater leverage across our portfolio if and when warranted by prevailing market conditions.

PROPERTY MANAGEMENT

We work closely with our hotel management companies to operate our hotels and increase same hotel performance for our portfolio. Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels, as of December 31, 2008:

	Wholly Owned		Joint Ventures		Total	
Manager	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
HHMLP	50	5,306	7	1,052	57	6,358
Waterford Hotel Group	-	-	9	1,708	9	1,708
LodgeWorks	7	1,005	-	-	7	1,005
Jiten Management	-	-	2	282	2	282
Marriott	1	203	-	-	1	203
Total	58	6,514	18	3,042	76	9,556

Each management agreement provides for a set term and is subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, all managers, including HHMLP, must qualify as an "eligible independent contractor" during the term of the management agreements.

Under the management agreements, the manager generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by the manager in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. Our managers are not obligated to advance any of their own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel.

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

We have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective franchise licenses among other requirements. In addition, we may upgrade the hotels in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses.

OPERATING PRACTICES

Our managers utilize centralized accounting and data processing systems, which facilitate financial statement and budget preparation, payroll management, quality control and other support functions for the on-site hotel management team. Our managers also provide centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

DISTRIBUTIONS

We have made forty consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders as approved by our Board of Trustees. The following table sets forth distribution information for the last two calendar years.

Quarter to which Distribution Relates	Class A Common and Limited Partnership Unit Per Share Distribution Amount	Record Date	Payment Date	Series A Preferred Per Share Distribution Amount	Record Date	Payment Date
2008						
First Quarter	$ 0.18	3/31/2008	4/16/2008	$ 0.50	4/1/2008	4/15/2008
Second Quarter	$ 0.18	6/30/2008	7/16/2008	$ 0.50	7/1/2008	7/15/2008
Third Quarter	$ 0.18	9/30/2008	10/16/2008	$ 0.50	10/1/2008	10/15/2008
Fourth Quarter	$ 0.18	1/5/2009	1/16/2009	$ 0.50	1/1/2009	1/15/2009
2007						
First Quarter	$ 0.18	3/30/2007	4/17/2007	$ 0.50	4/1/2007	4/16/2007
Second Quarter	$ 0.18	6/29/2007	7/17/2007	$ 0.50	7/1/2007	7/16/2007
Third Quarter	$ 0.18	9/28/2007	10/16/2007	$ 0.50	10/1/2007	10/15/2007
Fourth Quarter	$ 0.18	1/5/2008	1/16/2008	$ 0.50	1/1/2008	1/15/2008

Our Board of Trustees will determine the amount of our future distributions in its sole discretion and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on the profitability and cash flow available from our hotels. There can be no assurance we will continue to pay distributions at the rates above or any other rate. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

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 operating revenues and profitability. Hotel revenue is generally greater in the second and third quarters than in the first and fourth quarters. There are no assurances we will be able to continue to make quarterly distributions at the current rate.

COMPETITION

The upscale and mid-scale, limited service segment of the hotel business is highly competitive. Among many other factors, our hotels compete on the basis of location, room rates, quality, service levels, reputation, and reservation systems. There are many competitors in our market segments and new hotels are always being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours. This competition could limit the number of suitable investment opportunities offered to us. It may also increase the bargaining power of property owners seeking to sell to us, making it more difficult for us to acquire new properties on attractive terms.

EMPLOYEES

As of December 31, 2008, we had 24 employees who were principally engaged in managing the affairs of the company unrelated to property management. Our relations with our employees are satisfactory.

FRANCHISE AGREEMENTS

We believe that the public's perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchise
Marriott International	Marriott, Residence Inn, Springhill Suites, Courtyard by Marriott, Fairfield Inn, TownePlace Suites
Hilton Hotels Corporation	Hilton, Hilton Garden Inn, Hampton Inn, Homewood Suites
Intercontinental Hotel Group	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites
Global Hyatt Corporation	Hyatt Summerfield Suites, Hawthorn Suites
Starwood Hotels	Four Points by Sheraton, Sheraton Hotels
Choice Hotels International	Comfort Inn, Comfort Suites, Sleep Inn, Mainstay Suites

We anticipate that most of the hotels in which we invest will be operated pursuant to franchise licenses.

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of our hotel revenues.

TAX STATUS

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing with our taxable year ended December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to Federal income tax on the portion of our income that is currently distributed to shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to Federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to Federal income and excise taxes on our undistributed income.

We may own up to 100% of one or more TRSs. A TRS is a taxable corporation that may lease hotels under certain circumstances, provide services to us, and perform activities such as third party management, development, and other independent business activities. Overall, no more than 25% of the value of our assets may consist of securities of one or more TRS. In addition, no more than 25% of our gross income for any year may consist of dividends from one or more TRSs and income from certain non-real estate related sources.

A TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager who satisfies the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating "qualified lodging facilities" for any person unrelated to us and the TRS;

2. such manager does not own, directly or indirectly, more than 35% of our shares;

3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and

4. we do not directly or indirectly derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation. A 100% excise tax is imposed on transactions between a TRS and us or our tenants that are not on an arm's-length basis.

FINANCIAL INFORMATION ABOUT SEGMENTS

We are in the business of acquiring equity interests in hotels, and we manage our business in one reportable segment. See Item 8 of this Annual Report on Form 10-K for segment financial information.

Item 2. Properties

The following table sets forth certain information with respect to the 58 hotels we wholly owned as of December 31, 2008 which are consolidated on the Company's financial statements.

Name	Location	Year Opened	Number of Rooms
Comfort Inn	North Dartmouth, MA	1986	84
	Harrisburg, PA	1998	81
	Frederick, MD	2004	73
Courtyard	Alexandria, VA	2006	203
	Scranton, PA	1996	120
	Langhorne, PA	2002	118
	Brookline/Boston, MA	2003	188
	Wilmington, DE	1999	78
Fairfield Inn	Bethlehem, PA	1997	103
	Laurel, MD	1999	109
Hampton Inn	Brookhaven, NY	2002	161
	Chelsea/Manhattan, NY	2003	144
	Hershey, PA	1999	110
	Carlisle,PA	1997	95
	Danville, PA	1998	72
	Selinsgrove, PA	1996	75
	Herald Square, Manhattan, NY	2005	136
	Philadelphia, PA	2001	250
	Seaport, NY	2006	65
	Smithfield, RI	2008	101
Hawthorn Suites	Franklin, MA	1999	100
Hilton Garden Inn	JFK Airport, NY	2005	188
	Edison, NJ	2003	132
	Gettysburg, PA	2004	88
Holiday Inn	Norwich, CT	2006	134
Holiday Inn Express	Hauppauge, NY	2001	133
	Cambridge, MA	1997	112
	Hershey, PA	1997	85
	New Columbia, PA	1997	81
	Malvern, PA	2004	88
	Oxford Valley, PA	2004	88
	Chester, NY	2006	80
	Camp Springs, MD	2008	127
Holiday Inn Express & Suites	Harrisburg, PA	1997	77
	King of Prussia, PA	2004	155
Independent	Wilmington, DE	1999	71
	Fifth Ave, NY	2007	70
	TriBeCa, NY	2008	45
	Brooklyn, NY	2008	93
Mainstay	Valley Forge, PA	2000	69
	Frederick, MD	2001	72
Residence Inn	North Dartmouth, MA	2002	96
	Tysons Corner, VA	1984	96
	Framingham, MA	2000	125
	Greenbelt, MD	2002	120
	Norwood, MA	2006	96
	Langhorne, PA	2007	100
	Carlisle,PA	2007	78
Sleep Inn	Valley Forge, PA	2000	87
Sheraton Hotel	JFK Airport, NY	2008	150
Summerfield Suites	White Plains, NY	2000	159
	Bridgewater, NJ	1998	128
	Gaithersburg, MD	1998	140
	Pleasant Hill, CA	2003	142
	Pleasanton, CA	1998	128
	Scottsdale, AZ	1999	164
	Charlotte, NC	1989	144
TownePlace Suites	Harrisburg, PA	2008	107
TOTAL ROOMS			**6,514**

The following table sets forth certain information with respect to the 18 hotels we owned through joint ventures with third parties as of December 31, 2008. Of the 18 properties owned through interests in joint ventures, three are consolidated.

Name	Location	Year Opened	Number of Rooms	HHLP Ownership in Asset	HHLP Preferred Return	Consolidated/ Unconsolidated
Courtyard	Norwich, CT	1997	144	66.7%	8.5%	Unconsolidated
	South Boston, MA	2005	164	50.0%	N/A	Unconsolidated
	Warwick, RI	2003	92	66.7%	8.5%	Unconsolidated
	Ewing/Princeton, NJ	2004	130	50.0%	11.0%	Unconsolidated
Four Points - Sheraton	Revere/Boston, MA	2001	180	55.0%	12.0%	Consolidated
Hilton	Hartford, CT	2005	393	8.8%	8.5%	Unconsolidated
Homewood Suites	Glastonbury, CT	2006	136	48.0%	10.0%	Unconsolidated
Marriott	Mystic, CT	2001	285	66.7%	8.5%	Unconsolidated
	Hartford, CT	2005	409	15.0%	8.5%	Unconsolidated
Residence Inn	Danbury, CT	1999	78	66.7%	8.5%	Unconsolidated
	Mystic, CT	1996	133	66.7%	8.5%	Unconsolidated
	Southington, CT	2002	94	44.7%	8.5%	Unconsolidated
	Williamsburg, VA	2002	108	75.0%	12.0%	Consolidated
Holiday Inn Express	South Boston, MA	1998	118	50.0%	N/A	Unconsolidated
	Manhattan, NY	2006	228	50.0%	N/A	Unconsolidated
Hilton Garden Inn	Glastonbury, CT	2003	150	48.0%	11.0%	Unconsolidated
Springhill Suites	Waterford, CT	1998	80	66.7%	8.5%	Unconsolidated
	Williamsburg, VA	2002	120	75.0%	12.0%	Consolidated
TOTAL ROOMS			**3,042**			

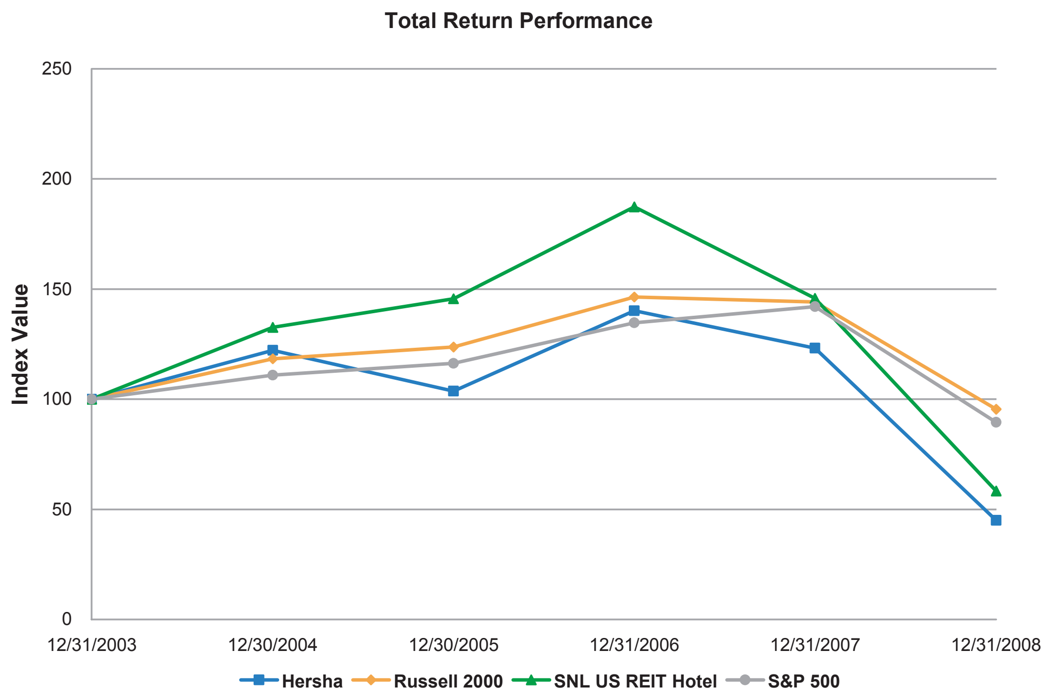
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2003 and ending December 31, 2008, with the yearly changes in the Standard & Poor's 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REITs Index ("Hotel REIT Index") for the same period, assuming a base share price of $100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of eleven publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance:

	Period Ending December 31,					
	2003	2004	2005	2006	2007	2008
Hersha Hospitality Trust	$ 100.00	$ 122.25	$ 103.64	$ 140.21	$ 123.21	$ 44.98
Russell 2000	100.00	118.33	123.72	146.44	144.15	95.44
SNL Hotel REITs Index	100.00	132.65	145.65	187.33	145.80	58.32
S&P 500	100.00	110.88	116.32	134.69	142.09	89.52



Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a 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. Where applicable, the operating results of certain real estate assets which have been sold or otherwise qualify as held for disposition are included in discontinued operations for all periods presented.

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

	2008	2007	2006	2005	2004
Revenue:					
Hotel Operating Revenues	$ 250,464	$ 229,461	$ 132,354	$ 65,493	$ 33,228
Interest Income From Development Loans	7,890	6,046	2,487	3,940	2,191
Land Lease Revenue	5,363	4,860	2,071	-	-
Hotel Lease Revenue	-	-	-	-	1,192
Other Revenues	1,054	980	737	529	176
Total Revenue	264,771	241,347	137,649	69,962	36,787
Operating Expenses:					
Hotel Operating Expenses	144,972	130,910	76,694	38,573	19,875
Hotel Ground Rent	1,040	856	804	433	504
Land Lease Expense	2,939	2,721	1,189	-	-
Real Estate and Personal Property Taxes and Property Insurance	12,953	11,349	5,979	3,374	2,129
General and Administrative	8,714	7,953	5,820	4,909	3,118
Acquisition and Terminated Transaction Costs	380	149	316	41	-
Impairment of Development Loan Receivable and Other Asset	21,004	-	-	-	-
Depreciation and Amortization	40,998	33,863	18,420	8,336	4,754
Total Operating Expenses	233,000	187,801	109,222	55,666	30,380
Operating Income	31,771	53,546	28,427	14,296	6,407
Interest Income	306	686	1,182	602	241
Interest expense	43,156	42,115	25,123	12,167	4,155
Other Expense	129	83	102	12	12
Loss on Debt Extinguishment	1,568	-	1,485	-	-
(Loss) Income before income (loss) from Unconsolidated Joint Venture Investments, Distributions to Preferred Unitholders, Minority Interests and Discontinued Operations	(12,776)	12,034	2,899	2,719	2,481
Income from Unconsolidated Joint Venture Investments	1,373	3,476	1,799	457	481
Impairment on Unconsolidated Joint Venture Assets	(1,890)	-	-	-	-
Net (Loss) Income from Unconsolidated Joint Venture Investments	(517)	3,476	1,799	457	481
(Loss) Income Before Distribution to Preferred Unitholders, Minority Interest and Discontinued Operations	(13,293)	15,510	4,698	3,176	2,962
Distributions to Preferred Unitholders	-	-	-	-	499
(Loss) Income Allocated to Minority Interest in Continuing Operations	(2,053)	1,773	579	122	307
(Loss) Income from Continuing Operations	(11,240)	13,737	4,119	3,054	2,156
Discontinued Operations, net of minority interest:					
Gain on Disposition of Hotel Properties	2,452	3,745	693	1,161	-
(Loss) Income from Discontinued Operations	(20)	365	286	(918)	(107)
Income from Discontinued Operations	2,432	4,110	979	243	(107)
Net (Loss) Income	(8,808)	17,847	5,098	3,297	2,049
Preferred Distributions	4,800	4,800	4,800	1,920	-
Net (Loss) Income applicable to Common Shareholders	$ (13,608)	$ 13,047	$ 298	$ 1,377	$ 2,049
Basic (Loss) Income from Continuing Operations applicable to Common Shareholders	$ (0.36)	$ 0.22	$ (0.03)	$ 0.06	$ 0.13
Diluted (Loss) Income from Continuing Operations applicable to Common Shareholders [1]	(0.36)	0.22	(0.03)	0.06	0.13
Dividends declared per Common Share	0.72	0.72	0.72	0.72	0.72

	2008	2007	2006	2005	2004
Balance Sheet Data					
Net investment in hotel properties	$ 982,082	$ 893,297	$ 807,784	$ 317,980	$ 163,923
Assets Held for Sale	-	-	-	3,407	18,758
Minority interest in Partnership	53,520	42,845	25,933	15,147	16,779
Shareholder's equity	349,963	330,405	331,619	164,703	119,792
Total assets	1,179,455	1,067,607	968,208	455,355	261,021
Total debt	743,781	663,008	580,542	256,146	98,788
Debt related to Assets Held for Sale	-	-	-	375	13,058
Other Data					
Funds from Operations (2)	$ 31,441	$ 49,822	$ 25,936	$ 14,495	$ 10,539
Net cash provided by operating activities	$ 53,894	$ 59,300	$ 27,217	$ 15,002	$ 12,148
Net cash used in investing activities	$ (114,870)	$ (46,027)	$ (413,881)	$ (190,825)	$ (78,378)
Net cash (used in) provided by financing activities	$ 64,346	$ (11,262)	$ 388,200	$ 163,989	$ 46,137
Weighted average shares outstanding					
Basic	45,184,127	40,718,724	27,118,264	20,293,554	16,391,805
Diluted (1)	45,184,127	40,718,724	27,118,264	20,299,937	16,391,805

(1) Income allocated to minority interest in the Partnership has been excluded from the numerator and Partnership units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact.

(2) See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Funds From Operations” for an explanation of FFO, why we believe FFO is a meaningful measure of our operating performance and a reconciliation of FFO to net income calculated in accordance with GAAP.

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. 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

As of December 31, 2008, we owned interests in 76 hotels in the eastern United States including interests in 18 hotels owned through joint ventures. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of December 31, 2008 we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS.

The TRS structure enables us to participate more directly in the operating performance of our hotels. The TRS directly receives all revenue from, and funds all expenses relating to hotel operations. The TRS is also subject to income tax on its earnings.

During the year ended December 31, 2008, the U.S. economy has been influenced by financial market turmoil, growing unemployment and declining consumer sentiment. As a result, the lodging industry is experiencing slowing growth or negative growth which could have a negative impact on our future results of operations and financial condition. For the year ended December 31, 2008, we have seen increases in Average Daily Rate ("ADR") and Revenue Per Available Room ("RevPAR"), in part, as a result of our strategy of investing in high quality upscale hotels in high barrier to entry markets, including gateway markets such as the New York City metro market. While we have seen increases in ADR and RevPAR in 2008, these increases were not at the levels realized in the previous year and we saw decreases in these measures in the fourth quarter of 2008.

The turmoil in the financial markets has caused credit to significantly tighten making it more difficult for hotel developers to obtain financing for development projects or for hotels without an operating history. This could have a negative impact on the collectability of our portfolio of development loans receivable. We monitor this portfolio to determine the collectability of the loan principal and interest accrued. We will continue to monitor this portfolio on an on-going basis. For more information, please see "Note 4 – Development Loans Receivable and Land Leases."

In addition, the tightening credit markets have made it more difficult to finance the acquisition of new hotel properties or refinance existing hotel properties that do not have a history of profitable operations. We monitor the maturity dates of our debt obligations and take steps in advance of the debt becoming due to extend or refinance the obligations. Please refer to "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a discussion of our debt maturities.

The following table outlines operating results for the Company's portfolio of wholly owned hotels and those owned through joint venture interests that are consolidated in our financial statements for the three years ended December 31, 2008, 2007 and 2006:

CONSOLIDATED HOTELS:

	Year Ended 2008	Year Ended 2007	2008 vs. 2007 % Variance	Year Ended 2006	2007 vs. 2006 % Variance
Rooms Available	2,423,433	2,248,253	7.8%	1,472,318	52.7%
Rooms Occupied	1,742,468	1,656,158	5.2%	1,065,825	55.4%
Occupancy	71.90%	73.66%	(1.8%)	72.39%	1.3%
Average Daily Rate (ADR)	$ 136.59	$ 131.26	4.1%	$ 116.23	12.9%
Revenue Per Available Room (RevPAR)	$ 98.21	$ 96.69	1.6%	$ 84.14	14.9%
Room Revenues	$ 237,995,147	$ 217,393,817	9.5%	$ 123,882,745	75.5%
Hotel Operating Revenues	$ 250,463,773	$ 229,460,728	9.2%	$ 132,354,355	73.4%
Hotel Operating Revenues from Discontinued Operations	$ -	$ 6,684,522	N/A	$ 15,847,421	N/A

The following table outlines operating results for the three years ended December 31, 2008, 2007 and 2006 for hotels we own through an unconsolidated joint venture interest. These operating results reflect 100% of the operating results of the property including our interest and the interests of our joint venture partners and other minority interest holders.

UNCONSOLIDATED JOINT VENTURES:

	Year Ended 2008	Year Ended 2007	2008 vs. 2007 % Variance	Year Ended 2006	2007 vs. 2006 % Variance
Rooms Available	963,892	954,114	1.0%	879,384	8.5%
Rooms Occupied	677,485	682,169	(0.7%)	613,272	11.2%
Occupancy	70.29%	71.50%	(1.2%)	69.74%	1.8%
Average Daily Rate (ADR)	$ 146.91	$ 144.51	1.7%	$ 132.54	9.0%
Revenue Per Available Room (RevPAR)	$ 103.26	$ 103.32	(0.1%)	$ 92.43	11.8%
Room Revenues	$ 99,530,317	$ 98,580,629	1.0%	$ 81,285,744	21.3%
Total Revenues	$ 127,874,193	$ 130,167,451	(1.8%)	$ 111,301,348	17.0%

Revenue per available room ("RevPAR") for the year ended December 31, 2008 increased 1.6% for our consolidated hotels and decreased 0.1% for our unconsolidated hotels when compared to the same period in 2007. This represents a deceleration in the rate of increase in RevPAR when compared to the increase experienced during the year ended December 31, 2007 over the same period in 2006. The deceleration of our growth in RevPAR is primarily due to deteriorating economic conditions in 2008 and the stabilization of hotel properties acquired in the previous years.

The increase in revenue per available room ("RevPAR") during the year ended December 31, 2007 was due primarily to the Company's broadened strategic portfolio focus on stronger central business districts and primary suburban office parks; the size of the recent acquisitions as a percentage of the portfolio; franchise affiliations with stronger brands, such as Hyatt Summerfield Suite, Hilton Garden Inn, Residence Inn and Courtyard by Marriott; and a focus on improving the average daily rate ("ADR"). The increase in both rooms and total revenue can be attributed primarily to the hotels acquired during the respective periods.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2008 TO DECEMBER 31, 2007
(dollars in thousands, except per share data)

Revenue

Our total revenues for the year ended December 31, 2008 consisted of hotel operating revenues, interest income from our development loan program, land lease revenue, and other revenue. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that are consolidated in our financial statements. Hotel operating revenues increased $21,003, or 9.2%, from $229,461 for the year ended December 31, 2007 to $250,464 for the same period in 2008. The increase in revenues is primarily attributable to the acquisitions consummated in 2008 and improved RevPAR and occupancy at certain of our hotels. We acquired interests in the following six consolidated hotels since December 31, 2007:

Brand	Location	Acquisition Date	Rooms	2008 Total Revenue
Duane Street Hotel (TriBeCa)	New York, NY	1/4/2008	45	$ 3,688
TownePlace Suites	Harrisburg, PA	5/8/2008	107	1,755
Sheraton Hotel	JFK Airport, Jamaica, NY	6/13/2008	150	3,931
Holiday Inn Express	Camp Springs, MD	6/26/2008	127	1,313
nu Hotel	Brooklyn, NY	7/7/2008*	93	2,314
Hampton Inn & Suites	Smithfield, RI	8/1/2008	101	848
			623	$ 13,849

*The property was purchased on 1/14/2008, but did not open for business until 7/7/2008.

Revenues for all six hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2008 included revenues for a full year related to the following six hotels that were purchased during the year ended December 31, 2007:

Brand	Location	Acquisition Date	Rooms	2008 Total Revenue	2007 Total Revenue
Residence Inn	Langhorne, PA	1/8/2007	100	$ 4,062	$ 3,352
Residence Inn	Carlisle, PA	1/10/2007	78	2,417	2,091
Holiday Inn Express	Chester, NY	1/25/2007	80	2,337	2,367
Hampton Inn	Seaport, NY	2/1/2007	65	5,833	5,200
Independent	373 Fifth Avenue	6/1/2007	70	4,562	3,051
Holiday Inn	Norwich, CT	7/1/2007	134	3,297	1,689
			527	$ 22,508	$ 17,750

We invest in hotel development projects by providing secured first mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income is earned on our development loans at rates ranging between 10.0% and 20.0%. Interest income from development loans receivable was $7,890 for the year ended December 31, 2008 compared to $6,046 for the same period in 2007. The average balance of development loans receivable outstanding in 2008 was higher than the average balance outstanding in 2007. This resulted in a $1,844, or 30.5% increase in interest income. For one of our development loans to an unaffiliated developer, we recorded an impairment charge as of December 31, 2008 for the remaining principal of $18,748, which is net of unamortized discount and loan fees in the amount of $1,252. The loan was deemed to be fully impaired when the developer was unable to obtain additional construction financing to complete the project and consequently defaulted under his senior mortgage loan. The project, located in Brooklyn, New York, NY, was to include hotel, residential and retail components, however, the land acquisition financing and our loan were not sufficient to fund the ongoing construction. A receivable for uncollected interest income of $569, which is net of unrecognized deferred loan fees of $143, was also recorded as an impairment charge. In connection with the development loan, we also hold an option to acquire an interest in the hotel upon completion of the development project. This option was valued at $1,687 at its inception and is deemed to be fully impaired. The total impairment charge recorded during the year ended December 31, 2008 related to this development loan and option was $21,004.

In 2006 we acquired two parcels of land, and in 2007 we acquired an additional two parcels of land, which are being leased to hotel developers. The hotel developers are owned in part by certain executives and affiliated trustees of the Company. Our net investment in these parcels is approximately $23,366. Each land parcel is leased at a minimum rental rate of 10% of our net investment in the land. Additional rents are paid by the lessee for the principal and interest on the mortgage, real estate taxes and insurance. During the year ended December 31, 2008, we recorded $5,363 in land lease revenue from these parcels. We incurred $2,939 in expense related to these land leases resulting in a contribution of $2,424 to our operating income during the year ended December 31, 2008.

Other revenue consists primarily of fees earned for asset management services provided to properties owned by two of our unconsolidated joint ventures. Other revenues increased from $980 for the year ended December 31, 2007 to $1,054 during the year ended December 31, 2008.

For the year ended December 31, 2008, interest income decreased $380 compared to the same period in 2007. Increased levels of interest income in 2007 resulted from higher levels of interest bearing deposits related to the acquisition of hotel properties during 2007.

Expenses

Total hotel operating expenses increased 10.7% to approximately $144,972 for the year ended December 31, 2008 from $130,910 for the year ended December 31, 2007. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2007, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization from $33,863 for the year ended December 31, 2007 to $40,998 for the year ended December 31, 2008. Similarly, real estate and personal property tax and property insurance increased $1,604, or 14.1%, in the year ended December 31, 2008 when compared to the same period in 2007.

General and administrative expense increased by approximately $761 from $7,953 in 2007 to $8,714 in 2008. General and administrative expenses increased primarily to increased stock based compensation costs associated with the issuance of additional stock awards in June 2008.

Unconsolidated Joint Venture Investments

Through our investment in the Mystic Partners joint venture, we have an 8.8% interest in the Hilton Hotel in Hartford, CT. In 2008, the Company determined that its interest in this hotel was impaired. As of December 31, 2008, the Company recorded an impairment loss of approximately $1,890 which represents our entire investment in the hotel. Offsetting this loss was approximately $1,373 in income from our unconsolidated joint venture investments. The net of the impairment charge and income from our unconsolidated joint ventures is a net loss of approximately $517. For the year ended December 31, 2007, approximately $3,476 in income from unconsolidated joint venture investments was recorded, resulting in a decrease of $3,993 over the same period in 2008.

During 2007, we acquired joint venture interests in the following property:

Joint Venture	Brand	Name	Acquisition Date	Rooms	Ownership %	Hersha Preferred Equity Return
Metro 29th Street Associates, LLC	Holiday Inn Express	Manhattan-New York, NY	2/1/2007	228	50.0%	N/A

Net Income/Loss

Net loss applicable to common shareholders for year ended December 31, 2008 was $13,608 compared to net income applicable to common shareholders of $13,047 for the same period in 2007.

Operating income for the year ended December 31, 2008 was $31,771 compared to operating income of $53,546 during the same period in 2007. The $21,775, or 40.7%, decrease in operating income was primarily the result of the impairment charge of $21,004 related to our investment in a development loan and an option to acquire the hotel property upon completion, noted above. This impairment charge was recorded during the fourth quarter of 2008.

The weighted average minority interest ownership in our operating partnership increased from 11.83% for the year ended December 31, 2007 to 15.10% for the year ended December 31, 2008. This change is a result of the issuance of units in our operating partnership as consideration for the acquisition of hotel properties and is partially offset by the issuance of 6,600,000 of our common shares in May of 2008. Interest expense, increased $1,041 from $42,115 for the year ended December 31, 2007 to $43,156 for the year ended December 31, 2008. The increase in interest expense is the result of mortgages placed on newly acquired properties and increased average balances on our line of credit.

Included in net loss applicable to common shareholders for the year ended December 31, 2008 is $2,432 in income from discontinued operations compared to $4,110 in income during the same period in 2007. Discontinued operations was driven primarily by a gain of $2,452 resulting from the sale of the Holiday Inn Conference Center in New Cumberland, PA in October 2008 and a gain of $3,745 results from the sale of the Fairfield Inn, Mt. Laurel, NJ and Hampton Inn, Linden, NJ in November 2007.

FUNDS FROM OPERATIONS
(in thousands, except share data)

The National Association of Real Estate Investment Trusts ("NAREIT") developed Funds from Operations ("FFO") as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Partnership units in accordance with the April 2002 National Policy Bulletin of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) 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. Our interpretation of the NAREIT definition is that minority interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shares, includes depreciation and amortization expenses, gains or losses on property sales, minority interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations.

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of Hersha's performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Partnership units because our Partnership units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Partnership units. The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods.

	Twelve Months Ending		
	December 31, 2008	**December 31, 2007**	**December 31, 2006**
Net (loss) income applicable to common shares	$ (13,608)	$ 13,047	$ 298
(Loss) income allocated to minority interest	(2,053)	1,773	579
(Loss) income of discontinued operations allocated to minority interest	(4)	49	37
Loss (income) from unconsolidated joint ventures	517	(3,476)	(1,799)
Gain on sale of assets	(2,452)	(3,745)	(693)
Depreciation and amortization	40,998	33,863	18,420
Depreciation and amortization from discontinued operations	420	1,267	1,850
FFO related to the minority interests in consolidated joint ventures [(1)]	(240)	(652)	(714)
Funds from consolidated hotel operations applicable to common shares and Partnership units	23,578	42,126	17,978
Income from Unconsolidated Joint Venture Investments	1,373	3,476	1,799
Impairment of Investment in Unconsolidated Joint Ventures	(1,890)	-	-
(Loss) Income from Unconsolidated Joint Ventures	(517)	3,476	1,799
Add:			
Depreciation and amortization of purchase price in excess of historical cost [(2)]	2,093	2,055	1,817
Interest in deferred financing costs written off in unconsolidated joint venture debt extinguishment	-	(2,858)	(207)
Interest in depreciation and amortization of unconsolidated joint venture [(3)]	6,287	5,023	4,549
Funds from unconsolidated joint ventures operations applicable to common shares and Partnership units	7,863	7,696	7,958
Funds from Operations applicable to common shares and Partnership units	$ 31,441	$ 49,822	$ 25,936
Weighted Average Common Shares and Units Outstanding			
Basic	45,184,127	40,718,724	27,118,264
Diluted	53,218,864	46,183,394	30,672,675

(1) Adjustment made to deduct FFO related to the minority interest in our consolidated joint ventures. Represents the portion of net income and depreciation allocated to our joint venture partners.
(2) Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.
(3) Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures.

Comparison of the year ended December 31, 2008 to December 31, 2007

FFO was $31,441 for the year ended December 31, 2008, which was a decrease of $18,381 or 36.9%, over FFO in the comparable period in 2007, which was $49,822. The decrease in FFO was primarily a result of an impairment of development loan receivable and other asset of $21,004 and an impairment of our interest in an unconsolidated joint venture of $1,890.

FFO was also negatively impacted by increases in our interest expense during the year ended December 31, 2008.

Comparison of the year ended December 31, 2007 to December 31, 2006

For the year ended December 31, 2007, FFO increased $23,886, or 92.1% over the same period in 2006. The increase in FFO was primarily a result of growth in the lodging industry and the markets where our properties are located, the benefits of acquiring assets and interests in joint ventures since December 31, 2005 and continued stabilization and maturation of the existing portfolio.

FFO was negatively impacted by increases in our interest expense during the year ended December 31, 2007.

Item 8. Financial Statements and Supplementary Data

Hersha Hospitality Trust

<u>Report of Independent Registered Public Accounting Firm</u>

The Board of Trustees and Stockholders of
Hersha Hospitality Trust:

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of Hersha Hospitality Trust's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We did not audit the financial statements of Mystic Partners, LLC an equity method investee company (See note 3) as of and for the year ended December 31, 2006. The Company's equity in earnings of Mystic Partners, LLC was $1,691,000 for the year ended December 31, 2006. The 2006 financial statements of Mystic Partners, LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mystic Partners as of and for the year ended December 31, 2006, is based on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, based on our audits and the report of other auditors related to 2006, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hersha Hospitality Trust and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hersha Hospitality Trust and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 5, 2009, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 5, 2009

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007
[IN THOUSANDS, EXCEPT SHARE AMOUNTS]

	December 31, 2008		December 31, 2007	
Assets:				
Investment in Hotel Properties, net of Accumulated Depreciation	$	982,082	$	893,297
Investment in Joint Ventures		46,283		51,851
Development Loans Receivable		81,500		58,183
Cash and Cash Equivalents		15,697		12,327
Escrow Deposits		12,404		13,706
Hotel Accounts Receivable, net of allowance for doubtful accounts of $120 and $47		6,870		7,287
Deferred Costs, net of Accumulated Amortization of $3,606 and $3,252		9,157		8,048
Due from Related Parties		4,645		1,256
Intangible Assets, net of Accumulated Amortization of $595 and $764		7,300		5,619
Other Assets		13,517		16,033
Total Assets	$	1,179,455	$	1,067,607
Liabilities and Shareholders' Equity:				
Line of Credit	$	88,421	$	43,700
Mortgages and Notes Payable, net of unamortized discount of $61 and $72		655,360		619,308
Accounts Payable, Accrued Expenses and Other Liabilities		17,745		17,728
Dividends and Distributions Payable		11,240		9,688
Due to Related Parties		1,352		2,025
Total Liabilities		774,118		692,449
Minority Interests:				
Common Units	$	53,520	$	42,845
Interest in Consolidated Joint Ventures		1,854		1,908
Total Minority Interests		55,374		44,753
Shareholders' Equity:				
Preferred Shares - 8% Series A, $.01 Par Value, 2,400,000 Shares Issued and Outstanding at December 31, 2008 and 2007 (Aggregate Liquidation Preference $60,000)		24		24
Common Shares - Class A, $.01 Par Value, 80,000,000 Shares Authorized, 48,276,222 and 41,203,612 Shares Issued and Outstanding at December 31, 2008 and 2007, respectively		483		412
Common Shares - Class B, $.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding		-		-
Accumulated Other Comprehensive Loss		(109)		(23)
Additional Paid-in Capital		463,772		397,127
Distributions in Excess of Net Income		(114,207)		(67,135)
Total Shareholders' Equity		349,963		330,405
Total Liabilities and Shareholders' Equity	$	1,179,455	$	1,067,607

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	2008	2007	2006
Revenue:			
Hotel Operating Revenues	$ 250,464	$ 229,461	$ 132,354
Interest Income from Development Loans	7,890	6,046	2,487
Land Lease Revenue	5,363	4,860	2,071
Other Revenues	1,054	980	737
Total Revenues	264,771	241,347	137,649
Operating Expenses:			
Hotel Operating Expenses	144,972	130,910	76,694
Hotel Ground Rent	1,040	856	804
Land Lease Expense	2,939	2,721	1,189
Real Estate and Personal Property Taxes and Property Insurance	12,953	11,349	5,979
General and Administrative	8,714	7,953	5,820
Acquisition and Terminated Transaction Costs	380	149	316
Impairment of Development Loan Receivable and Other Asset	21,004	-	-
Depreciation and Amortization	40,998	33,863	18,420
Total Operating Expenses	233,000	187,801	109,222
Operating Income	31,771	53,546	28,427
Interest Income	306	686	1,182
Interest Expense	43,156	42,115	25,123
Other Expense	129	83	102
Loss on Debt Extinguishment	1,568	-	1,485
(Loss) Income before (loss) income from Unconsolidated Joint Venture Investments, Minority Interests and Discontinued Operations	(12,776)	12,034	2,899
Unconsolidated Joint Ventures			
Income from Unconsolidated Joint Venture Investments	1,373	3,476	1,799
Impairment of Investment in Unconsolidated Joint Venture	(1,890)	-	-
(Loss) Income from Unconsolidated Joint Venture Investments	(517)	3,476	1,799
(Loss) Income before Minority Interests and Discontinued Operations	(13,293)	15,510	4,698
(Loss) Income allocated to Minority Interests in Continuing Operations	(2,053)	1,773	579
(Loss) Income from Continuing Operations	(11,240)	13,737	4,119
Discontinued Operations, net of minority interests (Note 12):			
Gain on Disposition of Hotel Properties	2,452	3,745	693
(Loss) Income from Discontinued Operations	(20)	365	286
Income from Discontinued Operations	2,432	4,110	979
Net (Loss) Income	(8,808)	17,847	5,098
Preferred Distributions	4,800	4,800	4,800
Net (Loss) Income applicable to Common Shareholders	$ (13,608)	$ 13,047	$ 298

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS

	2008		2007		2006	
Earnings Per Share:						
BASIC						
(Loss) income from continuing operations applicable to common shareholders	$ (0.36)		$ 0.22		$ (0.03)	
Income from Discontinued Operations	0.05		0.10		0.04	
Net (loss) income applicable to common shareholders	$ (0.31)		$ 0.32		$ 0.01	
DILUTED						
(Loss) income from continuing operations applicable to common shareholders	$ (0.36)	*	$ 0.22	*	$ (0.03)	*
Income from Discontinued Operations	0.05	*	0.10	*	0.04	*
Net (loss) income applicable to common shareholders	$ (0.31)	*	$ 0.32	*	$ 0.01	*
Weighted Average Common Shares Outstanding:						
Basic	45,184,127		40,718,724		27,118,264	
Diluted	45,184,127	*	40,718,724	*	27,118,264	*

* Income allocated to minority interest in the Partnership has been excluded from the numerator and OP Units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average OP Units outstanding for the years ended December 31, 2008, 2007 and 2006 were 8,034,737, 5,464,670 and 3,554,361, respectively. Unvested stock awards have been omitted from the denominator for the purpose of computing diluted earnings per share for the years ended December 31, 2008, 2007 and 2006 since the effect of including these awards in the denominator would be anti-dilutive to income from continuing operations applicable to common shareholders.

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
[IN THOUSANDS, EXCEPT SHARES]

	Class A Common Shares		Class B Common Shares		Series A Preferred Shares		Additional Paid-In Capital	Other Comprehensive Income	Distributions in Excess of Net Earnings	Total
	Shares	Dollars	Shares	Dollars	Shares	Dollars				
Balance at December 31, 2005	20,373,752	203	-	-	2,400,000	24	193,228	327	(29,079)	164,703
Common Stock Issuance	20,118,750	201	-	-	-	-	191,875	-	-	192,076
Issuance Costs	-	-	-	-	-	-	(1,061)			(1,061)
Unit Conversion	82,077	1	-	-	-	-	649	-	-	650
Reallocation of Minority Interest	-	-	-	-	-	-	(3,467)	-	-	(3,467)
Dividends declared:										
Common Stock ($0.72 per share)	-	-	-	-	-	-	-	-	(21,854)	(21,854)
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)
Dividend Reinvestment Plan	2,871	-	-	-	-	-	29	-	-	29
Stock Based Compensation										
Restricted Share Award Grants	89,500	-	-	-	-	-	-	-	-	-
Restricted Share Award Vesting	-	-	-	-	-	-	293			293
Share Grants to Trustees	5,000	-	-	-	-	-	46	-	-	46
Comprehensive Income (Loss):										
Other Comprehensive Loss	-	-	-	-	-	-	-	(94)	-	(94)
Net Income	-	-	-	-	-	-	-	-	5,098	5,098
Total Comprehensive Income										5,004
Balance at December 31, 2006	40,671,950	$ 405	-	$ -	2,400,000	$ 24	$ 381,592	$ 233	$ (50,635)	$ 331,619
Unit Conversion	306,460	3	-	-	-	-	2,366	-	-	2,369
Unit Conversion Costs	-	-	-	-	-	-	(142)	-	-	(142)
Reallocation of Minority Interest	-	-	-	-	-	-	12,422	-	-	12,422
Dividends declared:										
Common Stock ($0.72 per share)	-	-	-	-	-	-	-	-	(29,547)	(29,547)
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)
Dividend Reinvestment Plan	2,620	1	-	-	-	-	29	-	-	30
Stock Based Compensation										
Restricted Share Award Grants	214,582	-	-	-	-	-	-	-	-	-
Restricted Share Award Vesting	-	2	-	-	-	-	766	-	-	768
Share Grants to Trustees	8,000	1	-	-	-	-	94	-	-	95
Comprehensive Income (Loss):										
Other Comprehensive Loss	-	-	-	-	-	-	-	(256)	-	(256)
Net Income	-	-	-	-	-	-	-	-	17,847	17,847
Total Comprehensive Income										17,591
Balance at December 31, 2007	41,203,612	$ 412	-	$ -	2,400,000	$ 24	$ 397,127	$ (23)	$ (67,135)	$ 330,405
Common Stock Issuance	6,600,000	66					62,007			62,073
Issuance Costs							(228)			(228)
Unit Conversion	175,843	2	-	-	-	-	1,370	-	-	1,372
Reallocation of Minority Interest	-	-	-	-	-	-	1,966	-	-	1,966
Dividends declared:										
Common Stock ($0.72 per share)	-	-	-	-	-	-	-	-	(33,464)	(33,464)
Preferred Stock ($2.00 per share)	-	-	-	-	-	-	-	-	(4,800)	(4,800)
Dividend Reinvestment Plan	5,092	-	-	-	-	-	31	-	-	31
Stock Based Compensation										
Restricted Share Award Grants	281,675	3	-	-	-	-	(3)	-	-	-
Restricted Share Award Vesting	-	-	-	-	-	-	1,411	-	-	1,411
Share Grants to Trustees	10,000	-	-	-	-	-	91	-	-	91
Comprehensive Income (Loss):										
Other Comprehensive Loss	-	-	-	-	-	-	-	(86)	-	(86)
Net Loss	-	-	-	-	-	-	-	-	(8,808)	(8,808)
Total Comprehensive Loss										(8,894)
Balance at December 31, 2008	48,276,222	$ 483	-	$ -	2,400,000	$ 24	$ 463,772	$ (109)	$ (114,207)	$ 349,963

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

	2008	2007	2006
Operating activities:			
Net (loss) income	$ (8,808)	$ 17,847	$ 5,098
Adjustments to reconcile net (loss) income			
to net cash provided by operating activities:			
Gain on disposition of hotel assets held for sale	(2,888)	(4,248)	(784)
Impairment of development loan receivable and other asset	21,004	-	-
Depreciation	41,219	34,963	20,131
Amortization	1,958	1,812	1,118
Debt extinguishment	1,587	-	1,485
Income allocated to minority interests	(1,621)	2,323	706
Equity in loss (income) of unconsolidated joint ventures	517	(3,476)	(1,799)
Distributions from unconsolidated joint ventures	3,036	4,501	4,578
Loss (gain) recognized on change in fair value of derivative instrument	71	(89)	(197)
Stock based compensation expense	1,502	852	339
Change in assets and liabilities:			
(Increase) decrease in:			
Hotel accounts receivable	420	(2,500)	(1,731)
Escrows	1,302	1,845	(87)
Other assets	(1,132)	(261)	(2,781)
Due from related party	(3,251)	3,691	(2,131)
Increase (decrease) in:			
Due to related party	(1,115)	(1,291)	(1,448)
Accounts payable and accrued expenses	93	3,331	4,720
Net cash provided by operating activities	53,894	59,300	27,217
Investing activities:			
Purchase of hotel property assets	(63,626)	(32,658)	(395,359)
Capital expenditures	(19,226)	(16,773)	(11,020)
Proceeds from disposition of hotel assets held for sale	6,456	11,905	9,800
Deposits on hotel acquisitions	-	-	(2,100)
Cash paid for franchise fee intangible	(57)	(11)	(46)
Investment in notes receivable	-	-	(1,057)
Repayment of notes receivable	1,350	34	1,909
Investment in development loans receivable	(64,200)	(65,700)	(51,616)
Repayment of development loans receivable	22,416	53,000	37,050
Distributions from unconsolidated joint venture	2,113	6,485	2,767
Advances and capital contributions to unconsolidated joint ventures	(96)	(2,309)	(4,209)
Net cash used in investing activities	(114,870)	(46,027)	(413,881)
Financing activities:			
Proceeds from (repayments of) borrowings under line of credit, net	44,721	19,700	24,000
Principal repayment of mortgages and notes payable	(57,421)	(20,717)	(80,222)
Proceeds from mortgages and notes payable	59,156	28,543	280,205
Settlement of interest rate derivative	-	-	79
Cash paid for deferred financing costs	(1,244)	(286)	(1,224)
Proceeds from issuance of common stock, net	61,845	-	191,015
Stock issuance costs related to conversion of partnership units	-	(143)	-
Distributions to partners in consolidated joint ventures	-	(526)	(221)
Dividends paid on common shares	(32,169)	(29,424)	(18,174)
Dividends paid on preferred shares	(4,800)	(4,800)	(4,800)
Distributions paid on common partnership units	(5,742)	(3,609)	(2,458)
Net cash provided by (used in) financing activities	64,346	(11,262)	388,200
Net increase in cash and cash equivalents	3,370	2,011	1,536
Cash and cash equivalents - beginning of year	12,327	10,316	8,780
Cash and cash equivalents - end of year	$ 15,697	$ 12,327	$ 10,316

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust ("we" or the "Company") was formed in May 1998 as a self-administered, Maryland real estate investment trust ("REIT") for federal income tax purposes.

The Company owns a controlling general partnership interest in Hersha Hospitality Limited Partnership ("HHLP" or the "Partnership"), which owns a 99% limited partnership interest in various subsidiary partnerships. Hersha Hospitality, LLC ("HHLLC"), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HHLLC.

The Partnership formed a wholly owned taxable REIT subsidiary, 44 New England Management Company ("44 New England" or "TRS Lessee"), to lease certain of the Company's hotels.

On May 5, 2008, we transferred the listing of our common shares of beneficial interest and 8.0% Series A preferred shares of beneficial interest from the American Stock Exchange to the New York Stock Exchange (the "NYSE"). Hersha's common shares now trade on the NYSE under the ticker symbol "HT" and its Series A preferred shares now trade on the NYSE under the ticker symbol "HT PR A."

As of December 31, 2008, the Company, through the Partnership and subsidiary partnerships, wholly owned fifty-eight limited and full service hotels. All of the wholly owned hotel facilities are leased to the Company's taxable REIT subsidiary ("TRS"), 44 New England.

In addition to the wholly owned hotel properties, as of December 31, 2008, the Company owned joint venture interests in another eighteen properties. The properties owned by the joint ventures are leased to a TRS owned by the joint venture or to an entity owned by the joint venture partners and 44 New England. The following table lists the properties owned by these joint ventures:

Joint Venture	Ownership	Property	Location	Lessee/Sublessee
Unconsolidated Joint Ventures				
Inn America Hospitality at Ewing, LLC	50.0%	Courtyard	Ewing/Princeton, NJ	Hersha Inn America TRS Inc.
PRA Glastonbury, LLC	48.0%	Hilton Garden Inn	Glastonbury, CT	Hersha PRA TRS, Inc
PRA Suites at Glastonbury, LLC	48.0%	Homewood Suites	Glastonbury, CT	Hersha PRA LLC
Mystic Partners, LLC	66.7%	Marriott	Mystic, CT	Mystic Partners Leaseco, LLC
	8.8%	Hilton	Hartford, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Norwich, CT	Mystic Partners Leaseco, LLC
	66.7%	Courtyard	Warwick, RI	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Danbury, CT	Mystic Partners Leaseco, LLC
	66.7%	Residence Inn	Mystic, CT	Mystic Partners Leaseco, LLC
	44.7%	Residence Inn	Southington, CT	Mystic Partners Leaseco, LLC
	66.7%	Springhill Suites	Waterford, CT	Mystic Partners Leaseco, LLC
	15.0%	Marriott	Hartford, CT	Mystic Partners Leaseco, LLC
Hiren Boston, LLC	50.0%	Courtyard	South Boston, MA	South Bay Boston, LLC
SB Partners, LLC	50.0%	Holiday Inn Express	South Boston, MA	South Bay Sandeep, LLC
Metro 29th Street Associates, LLC.	50.0%	Holiday Inn Express	New York, NY	Metro 29th Sublessee, LLC
Consolidated Joint Ventures				
Logan Hospitality Associates, LLC	55.0%	Four Points – Sheraton	Revere/Boston, MA	Revere Hotel Group, LLC
LTD Associates One, LLC	75.0%	Springhill Suites	Williamsburg, VA	HT LTD Williamsburg One LLC
LTD Associates Two, LLC	75.0%	Residence Inn	Williamsburg, VA	HT LTD Williamsburg Two LLC

Mystic Partners, LLC owns an interest in nine hotel properties. Our interest in Mystic Partners, LLC is relative to our interest in each of the nine properties owned by the joint venture as defined in the joint venture's governing documents. Each of the nine properties owned by Mystic Partners, LLC is leased to a separate entity that is consolidated in Mystic Partners Leaseco, LLC which is owned by 44 New England and our joint venture partner in Mystic Partners, LLC.

The properties are managed by eligible independent management companies, including Hersha Hospitality Management, LP ("HHMLP"). HHMLP is owned in part by four of the Company's executive officers, two of its trustees and other third party investors.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all of our accounts as well as accounts of the Partnership, subsidiary partnerships and our wholly owned TRS Lessee. All significant inter-company amounts have been eliminated.

Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Properties owned in joint ventures are also consolidated if the determination is made that we are the primary beneficiary in a variable interest entity (VIE) or we maintain control of the asset through our voting interest in the entity. Control can be demonstrated by the ability of the general partner to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the limited partners and the inability of the limited partners to replace the general partner. Control can be demonstrated by the limited partners if the limited partners have the right to dissolve or liquidate the partnership or otherwise remove the general partner without cause or have rights to participate in the significant decisions made in the ordinary course of the partnership's business.

We evaluate each of our investments and contractual relationships to determine whether they meet the guidelines of consolidation. Our examination consists of reviewing the sufficiency of equity at risk, controlling financial interests, voting rights, and the obligation to absorb expected losses and expected gains, including residual returns. Based on our examination, the following entities were determined to be VIE's: Mystic Partners, LLC; Mystic Partners Leaseco, LLC; Hersha PRA LLC; South Bay Boston, LLC; HT LTD Williamsburg One LLC; HT LTD Williamsburg Two LLC; Metro 29th Sublessee, LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II. Mystic Partners, LLC is a VIE entity, however because we are not the primary beneficiary it is not consolidated by the Company. Our maximum exposure to losses due to our investment in Mystic Partners, LLC is limited to our investment in the joint venture which is $27,977 as of December 31, 2008. Also, Mystic Partners Leaseco, LLC; Hersha PRA LLC; South Bay Boston, LLC; HT LTD Williamsburg One LLC; HT LTD Williamsburg Two LLC, and Metro 29th Sublessee, LLC lease hotel properties from our joint venture interests and are variable interest entities. These entities are consolidated by the lessors, the primary beneficiaries of each entity. Hersha Statutory Trust I and Hersha Statutory Trust II are VIEs but HHLP is not the primary beneficiary in these entities. The accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated with and into HHLP.

We have consolidated the operations of the Logan Hospitality Associates, LLC; LTD Associates One, LLC; and LTD Associates Two, LLC joint ventures because each entity is a voting interest entity and the Company owns a majority voting interest in the venture.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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.

Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these Consolidated Financial Statements, different assumptions and estimates could materially impact our reported results. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions and changes in market conditions could impact our future operating results.

Investment in Hotel Properties

The Company allocates the purchase price of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets and the fair value of liabilities assumed, including debt. The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements	7 to 40 Years
Furniture, Fixtures and Equipment	5 to 7 Years

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company periodically reviews the carrying value of each hotel to determine if circumstances exist indicating impairment to the carrying value of the investment in the hotel or that depreciation periods should be modified. If facts or circumstances support the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel and determine if the investment in such hotel is recoverable based on the undiscounted future cash flows. If impairment is indicated, an adjustment will be made to the carrying value of the hotel to reflect the hotel at fair value.

In accordance with the provisions of Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," a hotel is considered held for sale when management and our independent trustees commit to a plan to sell the property, the property is available for sale, management engages in active program to locate a buyer for the property and it is probable the sale will be completed within a year of the initiation of the plan to sell.

Investment in Unconsolidated Joint Ventures

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to the ownership percentages due to specified preferred return rate thresholds.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances exist indicating impairment to the carrying value of the investment. When an impairment indicator is present, we will review the recoverability of our investment. It the investment's carrying value is not considered recoverable, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

Development Loans Receivable

The Company provides secured first-mortgage and mezzanine financing to hotel developers. Development loans receivable are recorded at cost and are reviewed for potential impairment at each balance sheet date. The Company's development loans receivable are each secured by various hotel or hotel development properties or partnership interests in hotel or hotel development properties. We have determined that development loans receivable do not constitute a financial interest in a VIE and do not consolidate the operating results of the borrower in our consolidated financial statements. Our evaluation consists of reviewing the sufficiency of the borrower's equity at risk, controlling financial interests in the borrower, voting rights of the borrower, and the borrower's obligation to absorb expected losses and expected gains, including residual returns. The analysis utilized by the Company in evaluating the development loans receivable involves considerable management judgment and assumptions.

A development loan receivable is considered impaired when it becomes probable, based on current information, that the Company will be unable to collect all amounts due according to the loan's contractual terms. The amount of impairment, if any, is measured by comparing the recorded amount of the loan to the present value of the expected cash flows or the fair value of the collateral. If a loan was deemed to be impaired, the Company would record a charge to income for any shortfall.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in banks plus short-term investments with an initial maturity of three months or less when purchased.

Escrow Deposits

Escrow deposits include reserves for debt service, real estate taxes, and insurance and reserves for furniture, fixtures, and equipment replacements, as required by certain mortgage debt agreement restrictions and provisions.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hotel Accounts Receivable

Hotel accounts receivable consists primarily of meeting and banquet room rental and hotel guest receivables. The Company generally does not require collateral. Ongoing credit evaluations are performed and an allowance for potential losses from uncollectible accounts is provided against the portion of accounts receivable that is estimated to be uncollectible.

Deferred Costs

Deferred loan costs are recorded at cost and amortized over the terms of the related indebtedness using the effective interest method.

Due from/to Related Parties

Due from/to Related Parties represents current receivables and payables resulting from transactions related to hotel management and project management with affiliated entities. Due from related parties results primarily from advances of shared costs incurred. Due to affiliates results primarily from hotel management and project management fees incurred. Both due to and due from related parties are generally settled within a period not to exceed one year.

Intangible Assets

Intangible assets consist of leasehold intangibles for above-market and below-market value of in-place leases and deferred franchise fees. The leasehold intangibles are amortized over the remaining lease term. Deferred franchise fees are amortized using the straight-line method over the life of the franchise agreement.

Minority Interest

Minority interest in the Partnership represents the limited partner's proportionate share of the equity of the Partnership. Income (Loss) is allocated to minority interest in accordance with the weighted average percentage ownership of the Partnership during the period. At the end of each reporting period the appropriate adjustments to the income (loss) are made based upon the weighted average percentage ownership of the Partnership during the period. Our ownership interest in the Partnership as of December 31, 2008, 2007 and 2006 was 84.5%, 86.4% and 91.4%, respectively. At December 31, 2008, there were 8,746,300 units outstanding with a fair market value of $26,239 which has been determined using the Company's stock price at December 31, 2008.

The Company revalues the minority interest associated with the Partnership units each quarter to maintain a proportional relationship between the book value of equity associated with common shareholders relative to that of the Unit holders since both have equivalent rights and Units are convertible into shares of common stock on a one-for-one basis.

We also maintain minority interests for the equity interest owned by third parties in Logan Hospitality Associates, LLC; LTD Associates One, LLC; and LTD Associates Two, LLC. Third parties own a 45% interest in Logan Hospitality Associates, LLC and a 25% interest in each of LTD Associates One LLC and LTD Associates Two, LLC. We allocate the income (loss) of these joint ventures to the minority interest in consolidated joint ventures based upon the ownership of the entities, preferences in distributions of cash available and the terms of each venture agreement.

Shareholders' Equity

On May 16, 2008, we completed a public offering of 6,000,000 common shares at $9.90 per share. On May 20, 2008, the underwriters exercised a portion of their over-allotment option with respect to that offering, and we issued an additional 600,000 common shares at $9.90 per share. Proceeds to us, net of underwriting discounts and commissions and expenses, were approximately $61,845. Immediately upon closing the offering, we contributed all of the net proceeds of the offering to the Partnership in exchange for additional Partnership interests. The net offering proceeds were used to repay indebtedness.

Stock Based Compensation

We apply Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123R) whereby we measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award.

Derivatives and Hedging

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates.

Revenue Recognition

We recognize revenue and expense for all consolidated hotels as hotel operating revenue and hotel operating expense when earned and incurred. These revenues are recorded net of any sales or occupancy taxes collected from our guests. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred.

Interest income on development loan financing is recorded in the period earned based on the interest rate of the loan and outstanding balance during the period. Development loans receivable and accrued interest on the development loans receivable are evaluated to determine if outstanding balances are collectible. Interest is recorded only if it is determined the outstanding loan balance and accrued interest balance are collectible.

We lease land to hotel developers under fixed lease agreements. In addition to base rents, these lease agreements contain provisions that require the lessee to reimburse real estate taxes, debt service and other impositions. Base rents and reimbursements for real estate taxes, debt service and other impositions are recorded in land lease revenue on an accrual basis. Expenses for real estate taxes, interest expense, and other costs that are reimbursed under the land leases are recorded in land lease expense when they are incurred.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of the hotels revenue and are recorded in the period earned to the extent of the minority interest ownership.

Income Taxes

The Company qualifies as a REIT under applicable provisions of the Internal Revenue Code (Code), as amended, and intends to continue to qualify as a REIT. In general, under such provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income will not be subject to Federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for Federal income tax purposes.

Deferred income taxes relate primarily to the TRS Lessee and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS Lessee and their respective tax bases and for their operating loss and tax credit carry forwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

Although the TRS Lessee is expected to operate at a profit for Federal income tax purposes in future periods, the utilization of the deferred tax asset is not determinable. Therefore, any deferred tax assets have been reserved as we have not concluded that it is more likely than not that these deferred tax assets will be realizable.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

SFAS No. 141R

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R, "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value." SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The Company has not determined whether the adoption of SFAS No. 141R will have a material effect on the Company's financial statements. Adoption of SFAS No.141R on January 1, 2009 could have a material effect on the Company's financial statements and the Company's future financial results to the extent the Company acquires significant amounts of real estate assets. Costs related to future acquisitions will be expensed as incurred compared to the Company's current practice of capitalizing such costs and amortizing them over the useful life of the acquired assets. In addition, to the extent the Company enters into acquisition agreements with earn-out provisions, a liability may be recorded at the time of acquisition based on an estimate of the earn-out to be paid compared to our current practice of recording a liability for the earn-out when amounts are probable and determinable.

SFAS No. 160

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS No. 160"). SFAS No. 160 requires noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement will result in minority interest to be reclassified as a component of shareholders' equity.

SFAS No. 161

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. The objective of the guidance is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company has determined that the adoption of SFAS No. 161 will not have a material effect on the Company's financial statements.

FSP EITF 03-6-1

In June 2008, the FASB issued FASB Staff Position on Emerging Issues Task Force Issue 03-6, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. Early application is not permitted. We expect that the adoption of this FSP will not impact our financial position or net income.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consist of the following at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Land	$ 184,879	$ 172,061
Buildings and Improvements	802,760	706,038
Furniture, Fixtures and Equipment	121,991	105,979
Construction in Progress	-	1,541
	1,109,630	985,619
Less Accumulated Depreciation	(127,548)	(92,322)
Total Investment in Hotel Properties	$ 982,082	$ 893,297

Depreciation expense was $41,219, $34,895 and $20,120 for the years ended December 31, 2008, 2007 and 2006, respectively.

During the year ended December 31, 2008 we acquired the following wholly owned hotel properties:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees, Loan Costs, and Leasehold Intangible	Total Purchase Price	Fair Value of Assumed Debt
Duane Street Hotel, TriBeCa, New York, NY	1/4/2008	$ 8,213	$ 12,869	$ 2,793	$ -	$ 23,875	$ -
nu Hotel, Brooklyn, NY	1/14/2008	-	17,343	-	-	17,343	-
TownePlace Suites, Harrisburg, PA	5/8/2008	1,238	10,182	1,792	42	13,254	-
Sheraton Hotel, JFK Airport, Jamaica, NY	6/13/2008	-	27,584	4,413	2,893	34,890	23,800
Holiday Inn Express, Camp Springs, MD	6/26/2008	1,629	11,115	931	5	13,680	-
Hampton Inn, Smithfield, RI	8/1/2008	2,057	9,502	1,156	102	12,817	6,990
Total 2008 Wholly Owned Acquisitions		$ 13,137	$ 88,595	$ 11,085	$ 3,042	$ 115,859	$ 30,790

In connection with the acquisitions made during the year ended December 31, 2008, we acquired $344 in working capital assets and assumed $662 in working capital liabilities.

Interest rates on debt assumed in the acquisitions of the Sheraton Hotel, JFK Airport, Jamaica, NY and the Hampton Inn, Smithfield, RI were at market rates. In connection with the acquisition of the Sheraton Hotel, the Company assumed a $23,800 variable rate mortgage which accrued interest at LIBOR plus 2.00% per annum. This debt was repaid in October 2008 with borrowings from our revolving line of credit, and this property now serves as collateral for borrowings under our revolving line of credit. In connection with the acquisition of the Sheraton Hotel, we assumed a lease for the underlying land with a remaining term of approximately 94 years. The remaining lease payments were determined to be below market value and, as a result, $2,171 of the purchase price was allocated to a leasehold intangible asset. This asset is recorded in intangible assets on the consolidated balance sheet and is being amortized over the remaining life of the lease.

In connection with the acquisition of the Duane Street Hotel, the Company entered into a $15,000 fixed rate mortgage with interest at 7.15%. The mortgage matures in February 2018 and is interest only for the first three years. Upon acquisition of the nu Hotel, located in Brooklyn, NY, we commenced renovations to fit out the building prior to its opening. Costs associated with the building while it was being renovated, including interest, were capitalized. On July 7, 2008, the property opened and all renovation costs were capitalized to building and improvements and furniture, fixtures and equipment and are being depreciated over the useful lives of these assets. In connection with the acquisition of the nu Hotel the Company entered into an $18,000 variable rate mortgage debt facility with interest at LIBOR plus 2.00%. Principal of $13,240 was drawn on the date of acquisition, while the remainder of the balance has been drawn as renovations progressed and as interest was incurred. The mortgage requires the payment of interest only and matures in January of 2011.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES (continued)

In connection with the acquisition of the Hampton Inn, Smithfield, RI, the Company assumed a $6,990 fixed rate mortgage which accrues interest at 6.98%. The mortgage matures in December 12, 2016. In connection with the acquisition of the property, the sellers provided a $500 note payable which accrued interest at a rate of 7.00% per annum. This note was repaid prior to September 30, 2008.

The Duane Street Hotel, New York, NY was acquired from entities that are owned by certain of the Company's executives and affiliated trustees. Included in the consideration paid for the Duane Street Hotel were 779,585 units of limited partnership interest ("OP Units") in Hersha Hospitality Limited Partnership ("HHLP" or the "Partnership"), our operating partnership subsidiary, valued at $6,862. The OP Units were issued to certain executives and affiliated trustees of the Company. The Sheraton Hotel, JFK Airport, Jamaica, NY, was acquired from entities that are owned by certain of the Company's executives and affiliated trustees and an unrelated third party. Included in the consideration paid for the Sheraton Hotel were 1,177,306 OP Units in HHLP valued at $10,596. The OP Units were issued to certain executives and affiliated trustees of the Company and an unrelated third party. The Holiday Inn Express, Camp Springs, MD, was acquired from entities that are owned by certain of the Company's executives and affiliated trustees and an unrelated third party. Included in the consideration paid for the Holiday Inn Express were 540,337 OP Units in HHLP valued at $4,166. The OP Units were issued to certain executives and affiliated trustees of the Company and an unrelated third party.

Our newly acquired hotels are leased to our wholly-owned taxable REIT subsidiary ("TRS"), 44 New England Management Company and all are managed by Hersha Hospitality Management, LP ("HHMLP"). HHMLP is owned by three of the Company's executives, two of its affiliated trustees and other investors that are not affiliated with the Company.

During the year ended December 31, 2007 we acquired the following wholly owned hotel properties:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees and Loan Costs	Total Purchase Price	Fair Value of Assumed Debt
Residence Inn, Langhorne, PA	1/8/2007	$ 1,463	$ 12,125	$ 2,170	$ 50	$ 15,808	$ -
Residence Inn, Carlisle, PA	1/10/2007	1,015	7,511	1,330	89	9,945	7,000
Holiday Inn Express, Chester, NY	1/25/2007	1,500	6,701	1,031	126	9,358	6,700
Hampton Inn - Seaport, New York, NY	2/1/2007	7,816	19,056	1,729	1,036	29,637	20,202
Hotel 373 and Starbucks Lease - 5th Avenue, New York, NY	6/1/2007	14,239	16,801	3,294	11	34,345	22,000
Nevins Street, Brooklyn, NY	6/11/2007 & 7/11/2007	10,650	-	-	269	10,919	6,500
Holiday Inn, Norwich, CT	7/1/2007	1,984	12,037	2,041	67	16,129	8,162
Total 2007 Wholly Owned Acquisitions		$ 38,667	$ 74,231	$ 11,595	$ 1,648	$ 126,141	$ 70,564

Interest rates on debt assumed in the acquisition of the Residence Inn, Carlisle, PA and the Holiday Inn Express & Suites, Chester, NY were at market rates. We assumed $19,250 in debt with the acquisition of the Hampton Inn-Seaport, New York, NY bearing interest at a fixed rate of 6.36% which was determined on the date of acquisition to be above market rates. We recorded a premium of $952 related to the assumption of this debt. In the acquisition of Hotel 373 – 5th Avenue, New York, NY, we assumed $22,000 in variable rate debt bearing interest at LIBOR plus 2.00% and an interest rate cap which effectively caps interest on this debt at 7.75%. The debt matures and the interest rate cap terminates on April 9, 2009. The interest rate cap had a fair value of $15 on the date of acquisition. We assumed $6,500 in variable rate debt bearing interest at LIBOR plus 2.70% with the acquisition of a parcel of land on Nevins Street in Brooklyn, NY. This parcel of land is being leased to a hotel developer that is owned in part by certain executives and affiliated trustees of the Company. Lease income on the land includes payment of debt service on the assumed debt. We assumed $8,162 in debt with the acquisition of the Holiday Inn, Norwich, CT which was repaid on July 30, 2007.

The Residence Inn, Carlisle, PA and the Hampton Inn-Seaport, New York, NY were acquired from entities that are owned by certain of the Company's executives and affiliated trustees. Included in the consideration paid for the Residence Inn, Carlisle, PA

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES (continued)

were 119,818 OP Units in HHLP valued at $1,330. The OP Units were issued to sellers that are not affiliated with the Company. Consideration paid for the Hampton Inn-Seaport, New York, NY, included 15,016 OP Units valued at $168 and an $8,208 note payable. The OP Units and note payable were issued to certain executives and affiliated trustees of the Company.

On May 24, 2007, the note payable was fully repaid. Interest expense of $203 was incurred on the notes payable during the year ended December 31, 2007. Included in the consideration paid for the Hotel 373 – 5th Avenue, New York, NY were 1,000,000 OP Units valued at $12,320. The OP Units were issued to a seller that is not affiliated with the Company. Consideration paid for the Holiday Inn, Norwich, CT, included 659,312 OP Units valued at $7,800. The OP Units were issued to certain executives and affiliated trustees of the Company.

On January 8, 2007, we closed on the acquisition of the Residence Inn, Langhorne, PA. The purchase agreement for this acquisition contained certain provisions that entitle the seller to an earn-out payment of up to $1,000 based on the net operating income of the property, as defined in the purchase agreement. The earn-out period expired on July 31, 2008. Based on results for this property through July 31, 2008, a $1,000 earn-out was paid in October 2008. This additional purchase price was capitalized to land, building and improvements, and furniture, fixtures and equipment and is being depreciated over the useful lives of these assets.

The purchase agreements for some of our acquisitions contain certain provisions that entitle the seller to an earn-out payment based on the Net Operating Income of the properties, as defined in each purchase agreement. The following table summarizes our existing earn-out provisions:

Acquisition Date	Acquisition Name	Maximum Earn-Out Payment Amount	Earn-Out Period Expiration
12/28/2006	Summerfield Suites Portfolio	$ 6,000,000	December 31, 2009
6/26/2008	Holiday Inn Express, Camp Springs, MD	1,905,000	December 31, 2010
8/1/2008	Hampton Inn & Suites, Smithfield, RI	1,515,000	December 31, 2010

We are currently unable to determine whether amounts will be paid under these three earn-out provisions since significant time remains until the expiration of the earn-out periods. Due to uncertainty of the amounts that will ultimately be paid, no accrual has been recorded on the consolidated balance sheet for amounts due under these earn-out provisions. In the event amounts are payable under these provisions, payments made will be recorded as additional consideration given for the properties.

On February 15, 2006, we acquired an 80% joint venture interest in an entity that owns the Hampton Inn, Philadelphia, PA. The entity that sold the 80% interest was owned, in part, by certain executives and affiliated trustees of the Company. On October 1, 2007, we acquired the remaining 20% interest from our joint venture partners. The following is the allocation of purchase price for each step of the acquisition:

	Acquisition Date	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Franchise Fees and Loan Costs	Total
Acquisition of 80% Interest	2/15/2006	$ 2,928	$ 21,062	$ 3,029	$ 117	$ 27,136
Acquisition of Remaining 20% Interest	10/1/2007	744	4,850	790	-	6,384

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 2 - INVESTMENT IN HOTEL PROPERTIES (continued)

Consideration paid for the remaining 20% interest in the Hampton Inn, Philadelphia, PA consisted of 406,877 OP Units valued at $4,162, which were issued to certain executives and affiliated trustees of the Company. Prior to the acquisition of the remaining 20% interest, the Hampton Inn, Philadelphia, PA was reported as a consolidated joint venture and its assets and liabilities were included in the Company's consolidated balance sheet and non-controlling interest of $588 was reported as Minority Interests. As a result of acquiring the remaining 20% interest in the venture, our investment in hotel properties was increased as follows:

	Land	Buildings and Improvements	Furniture Fixtures and Equipment	Total
Purchase Price	$ 744	$ 4,850	$ 790	$ 6,384
Less:				
Net book value included in consolidated financial statements prior to acquisition	(193)	(2,396)	(220)	(2,809)
Step-up in value included in consolidated financial statements after acquisition	$ 551	$ 2,454	$ 570	$ 3,575

Pro Forma Operating Results (Unaudited)

The following condensed pro forma financial data is presented as if all 2008 and 2007 acquisitions had been consummated as of January 1, 2007. Properties acquired without any operating history are excluded from the condensed pro forma operating results. The condensed pro forma information is not necessarily indicative of what actual results of operations of the Company would have been assuming the acquisitions had been consummated at the beginning of the year presented, nor does it purport to represent the results of operations for future periods.

	For the Year Ended December 31, 2008	2007
Pro Forma Total Revenues	$ 266,728	$ 243,681
Pro Forma (Loss) income from Continuing Operations applicable to Common Shareholders	$ (11,115)	$ 13,220
Income from Discontinued Operations	2,432	4,110
Pro Forma Net (Loss) income	(8,683)	17,330
Preferred Distributions	4,800	4,800
Pro Forma Net (Loss) income applicable to Common Shareholders	$ (13,483)	$ 12,530
Pro Forma (Loss) income applicable to Common Shareholders per Common Share		
Basic	$ (0.30)	$ 0.31
Diluted	$ (0.30)	$ 0.31
Weighted Average Common Shares Outstanding		
Basic	45,184,127	40,718,724
Diluted	45,184,127	40,718,724

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of December 31, 2008 and December 31, 2007 our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned	Preferred Return	December 31, 2008	December 31, 2007
PRA Glastonbury, LLC	Hilton Garden Inn, Glastonbury, CT	48%*	11.0% cumulative	$ 738	$ 945
Inn American Hospitality at Ewing, LLC	Courtyard by Marriott, Ewing, NJ	50.0%	11.0% cumulative	736	1,016
Hiren Boston, LLC	Courtyard by Marriott, Boston, MA	50.0%	N/A	3,960	4,148
SB Partners, LLC	Holiday Inn Express, Boston, MA	50.0%	N/A	2,091	2,010
Mystic Partners, LLC	Hilton and Marriott branded hotels in CT and RI	8.8%-66.7%	8.5% non-cumulative	27,977	32,928
PRA Suites at Glastonbury, LLC	Homewood Suites, Glastonbury, CT	48%*	10.0% non-cumulative	2,800	2,808
Metro 29th Street Associates, LLC	Holiday Inn Express, New York, NY	50.0%	N/A	7,981	7,996
				$ 46,283	$ 51,851

* Percent owned was 40.0% through March 31, 2007. On April 1, 2007 our percent owned increased to 48.0%.

On February 1, 2007 we acquired a 50.0% interest in Metro 29th Street Associates, LLC ("Metro 29th"), the lessee of the 228 room Holiday Inn Express-Manhattan, New York, NY, for approximately $6,817. Metro 29th holds a twenty five year lease with certain renewal options at the end of the lease term. We also acquired an option to acquire a 50% interest in the entity that owns the Holiday Inn Express-Manhattan. The option is exercisable after February 1, 2012 or upon termination of Metro 29th Street's lease of the hotel and expires at the end of the lease term. The fair value of the option was $933 at the time of acquisition and is recorded in other assets on our consolidated balance sheet. We issued 694,766 OP Units valued at $7,747 for our interest in Metro 29th and the option. Metro 29th Street entered into an agreement with Metro 29th Sublessee, LLC, a joint venture owned by 44 New England and our joint venture partner, to sublease the hotel property. The hotel is managed by HHMLP.

On April 1, 2007, we increased our investment in PRA Glastonbury, LLC, the owner of the Hilton Garden Inn, Glastonbury, CT, and PRA Suites at Glastonbury, LLC, the owner of the Homewood Suites, Glastonbury, CT by acquiring an additional 8% preferred interest from our partner in each venture. The purchase prices for our additional equity interests were $780 and $716 for PRA Glastonbury, LLC and PRA Suites at Glastonbury, LLC, respectively.

During the year ended December 31, 2008, we determined that our investment in the Hartford Hilton, part of the Mystic Partners joint venture portfolio, was impaired. As a result, the Company recorded an impairment charge of $1,890 which is included as impairment of investment in unconsolidated joint venture on the Company's consolidated statements of operations. This charge reduced our investment in the Hartford Hilton to $0.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

Income from our unconsolidated joint ventures is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. Any difference between the carrying amount of these investments and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets. Income (loss) recognized during the years ended December 31, 2008, 2007, and 2006 for our Investments in Unconsolidated Joint Ventures is as follows:

	Twelve Months Ended		
	12/31/2008	12/31/2007	12/31/2006
PRA Glastonbury, LLC	$ 94	$ 47	$ (257)
Inn American Hospitality at Ewing, LLC	20	73	160
Hiren Boston, LLC	(189)	304	(167)
SB Partners, LLC	80	191	(24)
Mystic Partners, LLC	(345)	1,612	1,691
PRA Suites at Glastonbury, LLC	(8)	(7)	(2)
Metro 29th Street Associates, LLC	1,721	1,256	-
HT/CNL Metro Hotels, LP	-	-	398
Income from Unconsolidated Joint Venture Investments	1,373	3,476	1,799
Less: Impairment of Investment in Unconsolidated Joint Venture	(1,890)	-	-
Net (Loss) Income from Unconsolidated Joint Venture Investments	$ (517)	$ 3,476	$ 1,799

The SB Partners and Hiren Boston joint venture agreements provided for a 10% preferred return during the first two years of the ventures based on our equity interest in the ventures. The preferred return period expired on July 1, 2007 for Hiren and October 1, 2007 for SB Partners. Subsequent to this initial two year period, cash distributions are made 50% to us and 50% to our joint venture partners in the ventures.

The Mystic Partners joint venture agreement provides for an 8.5% non-cumulative preferred return based on our contributed equity interest in the venture. Cash distributions will be made from cash available for distribution, first, to us to provide an 8.5% annual non-compounded return on our unreturned capital contributions and then to our joint venture partner to provide an 8.5% annual non-compounded return of their unreturned contributions. Any remaining cash available for distribution will be distributed to us 10.5% with respect to the net cash flow from the Hartford Marriott, 7.0% with respect to the Hartford Hilton and 56.7%, with respect to the remaining seven properties. Mystic Partners allocates income to us and our joint venture partner consistent with the allocation of cash distributions in accordance with the joint venture agreements.

Each of the Mystic Partners hotel properties, except the Hartford Hilton, is under an Asset Management Agreement with 44 New England to provide asset management services. Fees for these services are paid monthly to 44 New England and recognized as income in the amount of 1% of operating revenues, except for the Hartford Marriott which is 0.25% of operating revenues.

The Company and our joint venture partner in Mystic Partners jointly and severally guarantee the performance of the terms of a loan to Adriaen's Landing Hotel, LLC, owner of the Hartford Marriott, in the amount of $50,000, and 315 Trumbull Street Associates, LLC, owner of the Hartford Hilton, in the amount of $27,000, if at any time during the term of the note and during such time as the net worth of Mystic Partners falls below the amount of the guarantee. We have determined that the probability of incurring loss under this guarantee is remote and the value attributed to the guarantee is de minimis.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 3 — INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (continued)

The following tables set forth the total assets, liabilities, equity and components of net income, including the Company's share, related to the unconsolidated joint ventures discussed above as of December 31, 2008 and December 31, 2007 and for the years ended December 31, 2008, 2007, and 2006.

Balance Sheets

	December 31, 2008	December 31, 2007
Investment in hotel properties, net	$ 209,468	$ 229,829
Other Assets	25,334	30,000
Total Assets	$ 234,802	$ 259,829
Liabilities and Equity		
Mortgages and notes payable	$ 219,889	$ 221,398
Other liabilities	11,636	12,305
Equity:		
Hersha Hospitality Trust	44,938	47,311
Joint Venture Partner(s)	(41,661)	(21,185)
Total Equity	3,277	26,126
Total Liabilities and Equity	$ 234,802	$ 259,829

The following table is a reconciliation of the Company's share in the unconsolidated joint ventures to the Company's investment in the unconsolidated joint ventures as presented on the Company's balance sheets as of December 31, 2008 and 2007.

	December 31, 2008	December 31, 2007
Company's Share	$ 44,938	$ 47,311
Excess Investment (1)	1,345	4,540
Investment in Joint Venture	$ 46,283	$ 51,851

(1) Excess investment represents the unamortized difference between the Company's investment and the Company's share of the equity in the underlying net investment in the partnerships. The excess investment is amortized over the life of the properties, and the amortization is included in Net (Loss) Income from Unconsolidated Joint Venture Investments.

Statements of Operations

	Twelve Months Ended		
	12/31/2008	12/31/2007	12/31/2006
Room Revenue	$ 99,530	$ 98,581	$ 81,285
Other Revenue	28,344	31,586	30,016
Operating Expenses	(82,327)	(81,873)	(74,370)
Interest Expense	(13,442)	(15,421)	(15,687)
Debt Extinguishment	-	(2,858)	(517)
Loss on Impairment of Building and Equipment	(9,171)	-	-
Lease Expense	(5,538)	(5,332)	(393)
Property Taxes and Insurance	(6,459)	(6,159)	(5,537)
Federal and State Income Taxes	121	(141)	(224)
General and Administrative	(7,835)	(7,446)	(7,264)
Depreciation and Amortization	(16,171)	(16,680)	(16,993)
Net loss	$ (12,948)	$ (5,743)	$ (9,684)

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 4 - DEVELOPMENT LOANS RECEIVABLE AND LAND LEASES

We have approved first mortgage and mezzanine lending to hotel developers, including entities in which our executive officers and affiliated trustees own an interest, to enable such entities to construct hotels and conduct related improvements on specific hotel projects at interest rates ranging from 10% to 20%. As of December 31, 2008 and December 31, 2007, we had Development Loans Receivable of $81,500 and $58,183, respectively. Interest income from development loans was $7,890, $6,046, and $2,487 for the years ended December 31, 2008, 2007, and 2006, respectively. Accrued interest on our development loans receivable was $2,785 as of December 31, 2008 and $1,591 as of December 31, 2007.

As of December 31, 2008 and 2007, our development loans receivable consisted of the following:

Hotel Property	Borrower	Principal Outstanding 12/31/2008	Principal Outstanding 12/31/2007	Interest Rate	Maturity Date **
Sheraton - JFK Airport, NY	Risingsam Hospitality, LLC	$ -	$ 10,016	10%	October 9, 2008
Hampton Inn & Suites - West Haven, CT	44 West Haven Hospitality, LLC	2,000	2,000	10%	October 9, 2009 *
Hilton Garden Inn - New York, NY	York Street LLC	15,000	15,000	11%	May 31, 2009
Hampton Inn - Smithfield, RI	44 Hersha Smithfield, LLC	-	2,000	10%	October 9, 2008 *
Homewood Suites - Newtown, PA	Reese Hotels, LLC	500	700	11%	November 14, 2009
Union Square Hotel - Union Square, NY	Risingsam Union Square, LLC	10,000	10,000	10%	May 31, 2009
Hyatt Place - Manhattan, NY	Brisam East 52, LLC	10,000	-	10%	January 16, 2010
Lexington Avenue Hotel - Manhattan, NY	44 Lexington Holding, LLC	10,000	-	11%	May 30, 2009 *
Renaissance by Marriott - Woodbridge, NJ	Hersha Woodbridge Associates, LLC	5,000	-	11%	April 1, 2009 *
32 Pearl - Manhattan, NY	SC Waterview, LLC	8,000	-	10%	July 4, 2009
Greenwich Street Courtyard - Manhattan, NY	Brisam Greenwich, LLC	10,000	-	10%	September 12, 2009
Independent Hotel - New York, NY	Maiden Hotel, LLC	10,000	-	20%	March 8, 2009
Hilton Garden Inn - Dover, DE	44 Aasha Hospitality Associates, LLC	1,000	-	10%	November 1, 2009 *
Hilton Garden Inn/Homewood Suites - Brooklyn, NY	167 Johnson Street, LLC				
Tranche 1		-	11,000	11%	
Tranche 2		-	9,000	13.5%	
Discount		-	(1,533)		
Total Hilton Garden Inn/Homewood Suites - Brooklyn, NY		-	18,467		
Total Development Loans Receivable		$ 81,500	$ 58,183		

* Indicates borrower is a related party
** Represents current maturity date in effect. Agreements for our development loans receivable typically allow for two one-year extensions which can be exercised by the borrower if the loan is not in default.

We monitor our portfolio of development loans on an on-going basis to determine collectability of the loan principal and accrued interest. As part of our review we determined that the developer of the Hilton Garden Inn/Homewood Suites – Brooklyn, NY has failed to make payments to the senior lender on the property's first mortgage. After discussions with the developer and the senior lender, we have determined that the fair value of the loan receivable and discount is $0 as of December 31, 2008. As a result, we incurred an impairment charge for the remaining principal of $18,748, which is net of unamortized discount in the amount of $1,252. A receivable for uncollected interest income of $569, which is net of unrecognized deferred loan fees of $143, was also recorded as an impairment charge.

Advances and repayments on our development loans receivable consisted of the following for the years ended December 31, 2008, 2007, and 2006:

	2008	2007	2006
Balance at January 1,	$ 58,183	$ 47,016	$ 32,450
New Advances	64,200	65,700	51,616
Repayments	(22,416)	(53,000)	(37,050)
Discount recorded	-	(1,687)	-
Amortization of discount	281	154	-
Impairment of Development Loan Receivable, net of discount	(18,748)	-	-
Balance at December 31,	$ 81,500	$ 58,183	$ 47,016

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 4 - DEVELOPMENT LOANS RECEIVABLE AND LAND LEASES (continued)

We acquire land and improvements and lease them to entities, including entities in which our executive officers and affiliated trustees own an interest, to enable such entities to construct hotels and related improvements on the leased land. The land is leased under fixed lease agreements which earn rents at a minimum rental rate of 10% of our net investment in the leased property. Additional rents are paid by the lessee for the interest on the mortgage, real estate taxes and insurance. Revenues from our land leases are recorded in land lease revenue on our consolidated statement of operations. All expenses related to the land leases are recorded in operating expenses as land lease expense. Leased land and improvements are included in investment in hotel properties on our consolidated balance sheet. As of December 31, 2008 and 2007 our investment in leased land and improvements consists of the following:

	Investment In Leased Properties								
Location	Land	Improvements	Other	Total Investment	Debt	Net Investment	Acquisition/ Lease Date	Lessee	
440 West 41st Street, New York, NY	$ 10,735	$ 11,051	$ 196	$ 21,982	$ 12,100	$ 9,882	7/28/2006	Metro Forty First Street, LLC	
39th Street and 8th Avenue, New York, NY	21,774	-	541	22,315	13,250	9,065	6/28/2006	Metro 39th Street Associates, LLC	
Nevins Street, Brooklyn, NY	10,650	-	269	10,919	6,500	4,419	6/11/2007 & 7/11/2007	H Nevins Street Associates, LLC	*
Total	$ 43,159	$ 11,051	$ 1,006	$ 55,216	$ 31,850	$ 23,366			

* Indicates lessee is a related party

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 5 — OTHER ASSETS

Other Assets consisted of the following at December 31, 2008 and 2007:

	2008	2007
Transaction Costs	$ 237	$ 209
Investment in Statutory Trusts	1,548	1,548
Notes Receivable	1,267	2,581
Due from Lessees	1,907	1,986
Prepaid Expenses	3,182	3,402
Interest due on Development Loans to Non-Related Parties	2,024	1,456
Deposits on Property Improvement Plans	149	640
Hotel Purchase Option	933	2,620
Other	2,270	1,591
	$ 13,517	$ 16,033

Transaction Costs - Transaction costs include legal fees and other third party transaction costs incurred relative to entering into debt facilities, issuances of equity securities or acquiring interests in hotel properties are recorded in other assets prior to the closing of the respective transactions.

Investment in Statutory Trusts - We have an investment in the common stock of Hersha Statutory Trust I and Hersha Statutory Trust II. Our investment is accounted for under the equity method.

Notes Receivable – Notes receivable as of December 31, 2007 includes a loan made to one of our unconsolidated joint venture partners in the amount of $1,120 bearing interest at 13.5% with a maturity date of December 27, 2008. Notes receivable as of December 31, 2007 also included $1,350 extended in November and December 2006 to the purchaser of the Holiday Inn Express, Duluth, GA; Comfort Suites, Duluth, GA; Hampton Inn, Newnan, GA; and the Hampton Inn Peachtree City, GA (collectively the "Atlanta Portfolio"). The Atlanta Portfolio notes receivables were repaid in September 2008. Notes receivable as of December 31, 2008 includes a loan made to one of our unconsolidated joint venture partners in the amount of $1,267 bearing interest at 11% with a maturity date of December 31, 2009.

Due from Lessees - Due from lessees represent rents due under our land lease and hotel lease agreements.

Prepaid Expense - Prepaid expenses include amounts paid for property tax, insurance and other expenditures that will be expensed in the next twelve months.

Interest due on Development Loans – Interest due on development loans represents interest income due from loans extended to non-related parties that are used to enable such entities to construct hotels and conduct related improvements on specific hotel projects. This excludes interest due on development loans from loans extended to related parties in the amounts of $761 and $135, as of December 31, 2008 and 2007, respectively, which is included in the Due from Related Parties caption on the face of the consolidated balance sheets.

Deposits on Property Improvement Plans – Deposits on property improvement plans consists of amounts advanced to HHMLP that is to be used to fund capital expenditures as part of our property improvement programs at certain properties.

Hotel Purchase Option – We have options to acquire interests in two hotel properties at fixed purchase prices. An option valued at $1,687 is for the development property related to the impaired development loan receivable noted in Footnote 4. We determined that the fair value of this option as of December 31, 2008 is $0. Therefore, we recorded an impairment charge for the option value of $1,687, which is included in Impairment of Development Loan Receivable and Other Asset on the Company's consolidated statements of operations.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 6 - DEBT

Mortgages and Notes Payable

The total mortgages payable balance at December 31, 2008, and December 31, 2007, was $603,538 and $567,507, respectively, and consisted of mortgages with fixed and variable interest rates ranging from 4.0% to 8.94%. The maturities for the outstanding mortgages ranged from July 2009 to January 2032. Aggregate interest expense incurred under the mortgages payable totaled $34,855, $33,767 and $20,579 during 2008, 2007 and 2006, respectively. The mortgages are secured by first deeds of trust on various hotel properties with a combined net book value of $919,815 and $829,008 as of December 31, 2008, and 2007, respectively. Our indebtedness contains various financial and non-financial event of default covenants customarily found in financing arrangements. Our mortgages payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow. As of December 31, 2008 we were in compliance with all event of default covenants under the applicable loan agreement.

We have two junior subordinated notes payable in the aggregate amount of $51,548 to the Hersha Statutory Trusts pursuant to indenture agreements. The $25,774 note issued to Hersha Statutory Trust I will mature on June 30, 2035, but may be redeemed at our option, in whole or in part, beginning on June 30, 2010 in accordance with the provisions of the indenture agreement. The $25,774 note issued to Hersha Statutory Trust II will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, beginning on July 30, 2010 in accordance with the provisions of the indenture agreement. The note issued to Hersha Statutory Trust I bears interest at a fixed rate of 7.34% per annum through June 30, 2010, and the note issued to Hersha Statutory Trust II bears interest at a fixed rate of 7.173% per annum through July 30, 2010. Subsequent to June 30, 2010 for notes issued to Hersha Statutory Trust I and July 30, 2010 for notes issued to Hersha Statutory Trust II, the notes bear interest at a variable rate of LIBOR plus 3.0% per annum. Interest expense in amount of $3,729, $3,793, and $3,766 was recorded during the years ended December 31, 2008, 2007, and 2006, respectively.

As part of the acquisition of the Hyatt Summerfield Suites Portfolio, HHLP entered into a management agreement with Lodgeworks, L.P. (“Lodgeworks”). Lodgeworks extended an interest-free loan to HHLP for working capital contributions that are due at either the termination or expiration of the management agreement. Because the interest rate on the note payable is below the market rate of interest at the date of the acquisition, a discount was recorded on the note payable. The discount reduced the principal balances recorded in the mortgages and notes payable and is being amortized over the remaining life of the loan and is recorded as interest expense. The balance of the note payable, net of unamortized discount, was $274 as of December 31, 2008 and $253 as of December 31, 2007.

Aggregate annual principal payments for the Company’s mortgages and notes payable for the five years following December 31, 2008 and thereafter are as follows:

Year Ending December 31,	Amount
2009	72,196
2010	21,833
2011	41,587
2012	11,938
2013	25,265
Thereafter	482,602
Unamortized Discount	(61)
	$ 655,360

The loan agreements for two debt obligations totaling $34,100, which mature during the next twelve months, contain extension options that can be exercised at our discretion, effectively extending the maturity of $12,100 to 2011 and extending the maturity of $22,000 to 2012. As of December 31, 2008, mortgages and notes payable and borrowings under our line of credit had a carrying value of $743,842, which exceeded the fair value by approximately $48,511 due to an increase in market borrowing rates.

NOTE 6 – DEBT (continued)

Revolving Line of Credit

On October 14, 2008, we entered into a Revolving Credit Loan and Security Agreement with T.D. Bank, NA and various other lenders. The credit agreement provides for a revolving line of credit in the principal amount of up to $175,000, including a sub-limit of $25,000 for irrevocable stand-by letters of credit. The existing bank group has committed $135,000, and the credit agreement is structured to allow for an increase of an additional $40,000 under the line of credit, provided that additional collateral is supplied.

On October 14, 2008, our previous line of credit was terminated and replaced by the new line of credit and as a result all amounts outstanding under our previous credit facility were repaid with borrowings from our new credit facility. Additional borrowings under the line of credit provided by T.D. Bank, NA may be used for working capital and general corporate purposes, including payment of distributions or dividends and for the future purchase of additional hotels. The line of credit expires on December 31, 2011, and, provided no event of default has occurred and remains uncured, we may request that T.D. Bank, NA and the other lenders renew the line of credit for an additional one-year period.

At HHLP's option, the interest rate on the line of credit is either (i) the Wall Street Journal variable prime rate per annum or (ii) LIBOR available for the periods of 1, 2, 3, or 6 months plus two and one half percent (2.5%) per annum. Our interest rate swap agreement entered into on February 1, 2008 which fixed the interest rate on a $40,000 portion of our existing line of credit remains in place. See Note 8 for more information on this interest rate swap.

The line of credit is collateralized by a first lien-security interest in all existing and future assets of HHLP, a collateral assignment of all hotel management contracts of the management companies in the event of default, and title-insured, first-lien mortgages on the following properties:

- Fairfield Inn, Laurel, MD
- Hampton Inn, Danville, PA
- Hampton Inn, Philadelphia, PA
- Holiday Inn, Norwich, CT
- Holiday Inn Express, Camp Springs, MD
- Holiday Inn Express and Suites, Harrisburg, PA
- Holiday Inn Express, Hershey, PA
- Holiday Inn Express, New Columbia, PA
- Mainstay Suites and Sleep Inn, King of Prussia, PA
- Residence Inn, Langhorne, PA
- Residence Inn, Norwood, MA
- Sheraton Hotel, JFK Airport, New York, NY

The credit agreement providing for the line of credit includes certain financial covenants and requires that we maintain (1) a minimum tangible net worth of $300,000; (2) a maximum accounts and other receivables from affiliates of $125,000; (3) annual distributions not to exceed 95% of adjusted funds from operations; (4) maximum variable rate indebtedness to total debt of 30%; and (5) certain financial ratios, including the following:

- a debt service coverage ratio of not less than 1.35 to 1.00;
- a total funded liabilities to gross asset value ratio of not more than 0.67 to 1.00; and
- a EBITDA to debt service ratio of not less than 1.40 to 1.00;

The Company maintained a line of credit balance of $88,421 at December 31, 2008 and $43,700 at December 31, 2007. The Company recorded interest expense of $3,094, $4,239 and $2,134 related to the line of credit borrowings, for the years ended December 31, 2008, 2007, and 2006, respectively. The weighted average interest rate on our Line of Credit during the years ended December 31, 2008, 2007, and 2006 was 5.07%, 7.30%, and 7.33%, respectively. As of December 31, 2008 our remaining borrowing capacity under the Line of Credit was $42,143.

Capitalized Interest

We utilize mortgage debt and our revolving line of credit to finance on-going capital improvement projects at our properties. Interest incurred on mortgages and the revolving line of credit that relates to our capital improvement projects is capitalized through the date when the assets are placed in service. For the years ended December 31, 2008 and 2007, we capitalized $544 and $389, respectively, of interest expense related to these projects.

NOTE 6 – DEBT (continued)

Deferred Costs

Costs associated with entering into mortgages and notes payable and our revolving line of credit are deferred and amortized over the life of the debt instruments. Amortization of deferred costs is recorded in interest expense. As of December 31, 2008, deferred costs were $9,157, net of accumulated amortization of $3,606. Deferred costs were $8,048, net of accumulated amortization of $3,252, as of December 31, 2007. Amortization of deferred costs for the years ended December 31, 2008, 2007, and 2006 was $2,030, $1,724 and $944, respectively.

Debt Extinguishment

On July 1, 2008, we settled on the defeasance of loans associated with four of our properties. These mortgage loans had an aggregate outstanding principal balance of approximately $11,028 as of June 30, 2008. As a result of this extinguishment, we expensed $1,399 in unamortized deferred costs and defeasance premiums for three of the four properties, which are included in the Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2008 and now serve as collateral for our revolving credit facility entered into on October 14, 2008. The fourth property, the Holiday Inn Conference Center, New Cumberland, PA was sold on October 30, 2008 and $19 in unamortized deferred costs expensed as a result of the debt extinguishment is included in the Income (Loss) from Discontinued Operations caption on the consolidated statements of operations for the year ended December 31, 2008.

On September 30, 2008, we repaid $8,188 on our mortgage with M&T Bank for the Holiday Inn Express, Cambridge property as a result of debt refinancing. The new debt of $11,000 has a fixed interest rate of 6.625% and a maturity date of September 30, 2023. As a result of this extinguishment, we expensed $17 in unamortized deferred costs, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2008.

On October 14, 2008, we replaced our previous line of credit with Commerce Bank and various other lenders with a new credit facility with T.D. Bank, NA and various other lenders. As a result of the termination of the existing line of credit, we expensed $152 in unamortized deferred costs related to the origination of the original Commerce Bank Line of Credit, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2008.

In January 2006, we replaced our line of credit with Sovereign Bank and various other lenders with a line of credit with Commerce Bank and various other lenders. As a result of this termination, we expensed $255 in unamortized deferred costs related to the origination of the Sovereign Bank line of credit, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2006.

On April 7, 2006, we repaid $21,900 on our mortgage with Merrill Lynch for the Hampton Inn Herald Square property as a result of a debt refinancing. The new debt of $26,500 has a fixed interest rate of 6.085% and a maturity date of May 1, 2016. As a result of this extinguishment, we expensed $534 in unamortized deferred costs and prepayment penalties, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2006.

On June 9, 2006, we repaid $34,200 on our mortgage with UBS for the McIntosh Portfolio, as a result of a debt refinancing. The new debt of $36,300 has a fixed interest rate of 6.33% and maturity date of June 11, 2016 for each of the loans associated with the McIntosh Portfolio. As a result of this extinguishment, we expensed $374 in unamortized deferred costs, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2006.

On September 9, 2006, we repaid $8,287 on our mortgage with South New Hampshire Bank for the Residence Inn, Norwood, using proceeds from a draw on our line of credit with Commerce Bank. In connection with the mortgage assumption, the seller agreed to reimburse all pre-payment related fees associated with this payoff.

On December 27, 2006, we repaid $12,907 on our mortgage with GE Capital for the Hilton Garden Inn, JFK, NY property as a result of a debt payoff. The new debt of $21,000 was acquired on March 7, 2007 and has a fixed interest rate of 5.82% and a maturity date of March 1, 2017. As a result of this extinguishment, we expensed $322 in prepayment penalties, which are included in the Loss on Debt Extinguishment caption on the consolidated statements of operations for the year ended December 31, 2006.

NOTE 7 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

We are the sole general partner in our operating partnership subsidiary, HHLP, which is indirectly the sole general partner of the subsidiary partnerships. At December 31, 2008, there were 8,746,300 non-controlling OP Units outstanding with a fair market value of $26,239, based on the price per share of our common shares on the New York Stock Exchange on such date. These units are redeemable by the unitholders for cash or, at our option, common shares on a one-for-one basis.

Management Agreements

Our wholly owned TRS, 44 New England, engages eligible independent contractors pursuant to REIT qualifications, including HHMLP, as the property managers for hotels it leases from us pursuant to management agreements. Our management agreements with HHMLP provide for five-year terms and are subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, HHMLP must qualify as an "eligible independent contractor" during the term of the management agreements. Under the management agreements, HHMLP generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by HHMLP in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. HHMLP is not obligated to advance any of its own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee, and if a hotel exceeds certain thresholds, an incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of gross revenues associated with each hotel managed for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotels. For the years ended December 31, 2008, 2007 and 2006, base management fees incurred totaled $6,136, $5,571 and $4,361, respectively and are recorded as Hotel Operating Expenses. For the years ended December 31, 2008, 2007 and 2006, incentive management fees of $363, $0, and $0, respectively were recorded as Hotel Operating Expenses.

Franchise Agreements

Our branded hotel properties are operated under franchise agreements assumed by the hotel property lessee. The franchise agreements have 10 to 20 year terms but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The franchise agreements require annual payments for franchise royalties, reservation, and advertising services, and such payments are based upon percentages of gross room revenue. These payments are paid by the hotels and charged to expense as incurred. Franchise fee expense for the years ended December 31, 2008, 2007, and 2006 was $17,041, $16,333 and $9,773 respectively. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Administrative Services Agreement

Each of the wholly owned hotels and consolidated joint venture hotel properties managed by HHMLP incurs a monthly accounting and information technology fee. Monthly fees for accounting services are $2 per property and monthly information technology fees are $0.5 per property. In addition, each of the wholly owned hotels not managed by HHMLP, but for which the accounting is provided by HHMLP incurs a monthly accounting fee of $3. For the years ended December 31, 2008, 2007 and 2006, the Company incurred accounting fees of $1,426, $1,408 and $1,053, respectively. For the years ended December 31, 2008, 2007 and 2006, the Company incurred information technology fees of $316, $276 and $251, respectively. Administrative services fees, accounting fees, and information technology fees are included in General and Administrative expenses.

Capital Expenditure Fees

Beginning April 1, 2006, HHMLP began to charge a 5% fee on all capital expenditures and pending renovation projects at the properties as compensation for procurement services related to capital expenditures and for project management of renovation projects. For the years ended December 31, 2008, 2007 and 2006, we incurred fees of $271, $292, and $155, respectively, which were capitalized in with the cost of fixed asset additions.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 7 - COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (continued)

Acquisitions from Affiliates

We have entered into an option agreement with each of our officers and affiliated trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of our Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

Hotel Supplies

For the years ended December 31, 2008, 2007 and 2006, we incurred expenses of $1,588, $2,113 and $1,686, respectively, for hotel supplies from Hersha Hotel Supply, an unconsolidated related party, which are expenses included in Hotel Operating Expenses. Approximately $39 and $149 is included in accounts payable at December 31, 2008 and 2007.

Due From Related Parties

The Due from Related Party balance as of December 31, 2008 and December 31, 2007 was approximately $4,645 and $1,256, respectively. The balances primarily consisted of accrued interest due on our development loans, and the remaining due from related party balance are receivables owed from our unconsolidated joint ventures.

Due to Related Parties

The Due to Related Parties balance as of December 31, 2008 and December 31, 2007 was approximately $1,352 and $2,025, respectively. The balances consisted of amounts payable to HHMLP for administrative, management, and benefit related fees.

Hotel Ground Rent

During 2003, in conjunction with the acquisition of the Hilton Garden Inn, Edison, NJ, we assumed a land lease from a third party with an original term of 75 years. Monthly payments as determined by the lease agreement are due through the expiration in August 2074. On February 16, 2006, in conjunction with the acquisition of the Hilton Garden Inn, JFK Airport, we assumed a land lease with an original term of 99 years. Monthly payments are determined by the lease agreement and are due through the expiration in July 2100. On June 13, 2008, in conjunction with the acquisition of the Sheraton Hotel, JFK Airport, we assumed a land lease with an original term of 99 years. Monthly payments are determined by the lease agreement and are due through the expiration in November 2103. Each land leases provide rent increases at scheduled intervals. We record rent expense on a straight-line basis over the life of the lease from the beginning of the lease term. For the years ended December 31, 2008, 2007 and 2006, we incurred $1,040, $856, and $804 respectively, in hotel ground rent from continuing operations under the agreements.

Future minimum lease payments (without reflecting future applicable Consumer Price Index increases) under these agreements are as follows:

Year Ending December 31,	Amount
2009	$ 891
2010	905
2011	935
2012	975
2013	981
Thereafter	93,160
	$ 97,847

Litigation

We are not presently subject to any material litigation nor, to our knowledge, is any other litigation threatened against us, other than routine actions for negligence or other claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance and all of which collectively are not expected to have a material adverse effect on our liquidity, results of operations or business or financial condition.

NOTE 8 — FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Fair Value Measurements

On January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," ("SFAS No. 157") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of December 31, 2008, the Company's derivative instruments represented the only financial instruments measured at fair value. Currently, the Company uses derivative instruments, such as interest rate swaps and caps, to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2008, the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Derivative Instruments

On January 15, 2008, we entered into an interest rate swap agreement that fixes the interest rate on the variable rate mortgage, bearing interest at one month U.S. dollar LIBOR plus 2.0%, originated to finance the acquisition of the nu Hotel, Brooklyn, NY. Under the terms of this interest rate swap, we pay fixed rate interest of 3.245% on the $13,240 notional amount and we receive floating rate interest equal to the one month U.S. dollar LIBOR, effectively fixing our interest at a rate of 5.245%. On January 12, 2009, we entered into a new interest rate swap agreement for this variable rate mortgage, bearing interest at one month U.S. LIBOR plus 2.0%.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 8 — FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (continued)

Under the terms of this interest rate swap, we pay fixed rate interest of 1.1925% up to a $18,000 notional amount and we receive floating rate interest equal to the one month U.S. LIBOR, effectively fixing our interest at a rate of 3.1925%. This interest rate swap matures on January 10, 2011.

On February 1, 2008, we entered into an interest rate swap agreement that fixes the interest rate on a $40,000 portion of our floating revolving credit facility with Commerce Bank, which bears interest at one month U.S. dollar LIBOR plus 2.0%. Under the terms of this interest rate swap, we pay fixed rate interest of 2.6275% on the $40,000 notional amount and we receive floating rate interest equal to the one month U.S. dollar LIBOR, effectively fixing our interest on this portion of the line of credit at a rate of 4.6275%. This interest rate swap agreement matured on February 1, 2009, and we did not replace it with another agreement.

On December 31, 2008, we entered into an interest rate swap agreement that fixes the interest rate on a variable rate mortgage, bearing interest at one month U.S. dollar LIBOR plus 3.0%, originated upon the refinance of the debt associated with the Hilton Garden Inn, Edison, NJ. Under the terms of this interest rate swap, we pay fixed rate interest of 1.37% and we receive floating rate interest equal to the one month U.S. dollar LIBOR, effectively fixing our interest at a rate of 4.37%. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $7,300 as of December 31, 2008.

We maintain an interest rate cap that effectively fixes interest payments when LIBOR exceeds 5.75% on our debt financing Hotel 373, New York, NY. The notional amount of the interest rate cap is $22,000 and equals the principal of the variable interest rate debt being hedged.

We maintain an interest rate swap that fixes our interest rate on a variable rate mortgage on the Sheraton Four Points, Revere, MA. Under the terms of this interest rate swap, we pay fixed rate interest of 4.73% of the notional amount and we receive floating rate interest equal to the one month U.S. dollar LIBOR. The notional amount amortizes in tandem with the amortization of the underlying hedged debt and is $7,619 as of December 31, 2008. We entered into this interest rate swap in July of 2004 and designated it as a cash flow hedge in November of 2004 when the fair value of the swap was a liability of $342, causing ineffectiveness in the hedge relationship. Prior to January 1, 2008, the hedge relationship was deemed to be effective and the change in fair value related to the effective portion of the interest rate swap was recorded in Accumulated Other Comprehensive Income on the Balance Sheet. Subsequent to January 1, 2008, the hedge relationship was no longer deemed to be effective. The change in fair value of this interest rate swap for the year ended December 31, 2008 was a loss of $52 and was recorded in Interest Expense on the Statement of Operations.

At December 31, 2008 and December 31, 2007, the fair value of the interest rate swaps and cap were:

				Value	
Date of Transaction	Hedged Debt	Type	Maturity Date	December 31, 2008	December 31, 2007
July 2, 2004	Variable Rate Mortgage - Sheraton Four Points, Revere, MA	Swap	July 23, 2009	$ (172)	$ (120)
July 1, 2007	Variable Rate Mortgage - Hotel 373, New York, NY	Cap	April 9, 2009	-	1
January 15, 2008	Variable Rate Mortgage - Nu Hotel, Brooklyn, NY	Swap	January 12, 2009	(6)	-
February 1, 2008	Revolving Variable Rate Credit Facility	Swap	February 1, 2009	(74)	-
December 31, 2008	Variable Rate Mortgage - Hilton Garden Inn, Edison, NJ	Swap	January 1, 2011	(25)	
				$ (277)	$ (119)

The fair value of the derivative instrument is included in Accounts Payable, Accrued Expenses and Other Liabilities at December 31, 2008 and December 31, 2007.

The change in fair value of derivative instruments designated as cash flow hedges was a loss of $86, $256, and $94 for the years ended December 31, 2008, 2007, and 2006, respectively. These unrealized losses were reflected on our Balance Sheet in Accumulated Other Comprehensive Income. Hedge ineffectiveness of $1, $15, and $14 on cash flow hedges was recognized in interest expense for the years ended December 31, 2008, 2007, and 2006, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of $13 of net unrealized gains/losses from accumulated other comprehensive income as a reduction to interest expense during 2008. During 2009, the Company estimates that an additional $37 will be reclassified as a reduction to interest expense.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 9 - SHARE-BASED PAYMENTS

In May 2008, the Company established the Hersha Hospitality Trust 2008 Equity Incentive Plan (the "2008 Plan") for the purpose of attracting and retaining executive officers, employees, trustees and other persons and entities that provide services to the Company. Prior to the 2008 Plan, the Company made awards pursuant to the 2004 Equity Incentive Plan (the "2004 Plan"). Upon approval of the 2008 Plan by the Company's shareholders on May 22, 2008, the Company terminated the 2004 Plan. Termination of the 2004 Plan did not have any effect on equity awards and grants previously made under that plan.

Executives

Compensation expense related to restricted stock awards issued to executives of the Company of $1,411, $766 and $293 was incurred during the years ended December 31, 2008, 2007 and 2006, respectively, related to the restricted share awards and is recorded in general and administrative expense on the statement of operations. Unearned compensation as of December 31, 2008 and 2007 was $4,118 and $3,008, respectively. The following table is a summary of all of the grants issued to executives under the 2004 and 2008 Plans:

					Shares Vested December 31,		Unearned Compensation December 31,	
Original Issuance Date	Shares Issued	Share Price on date of grant	Vesting Period	Vesting Schedule	2008	2007	2008	2007
June 1, 2005	71,000	$ 9.60	4 years	25%/year	53,250	35,500	$ 71	$ 242
June 1, 2006	89,500	$ 9.40	4 years	25%/year	44,750	22,375	298	508
June 1, 2007	214,582	$ 12.32	4 years	25%/year	53,645	-	1,597	2,258
June 2, 2008	278,059	$ 8.97	4 years	25%/year	-	-	2,130	-
September 30, 2008	3,616	$ 7.44	1-4 years	25-100%/year	-	-	22	-
	656,757				151,645	57,875	$ 4,118	$ 3,008

Trustees

Compensation expense related to stock awards issued to the Board of Trustees of $91, $86, and $45 was incurred during the years ended December 31, 2008, 2007, and 2006. All shares issued to the Board of Trustees are immediately vested. The following table is a summary of all of the grants issued to trustees under the 2004 and 2008 Plans:

Date of Award Issuance	Shares Issued	Share Price on date of grant
March 1, 2005	2,095	$ 11.97
January 3, 2006	5,000	9.12
January 2, 2007	4,000	11.44
July 2, 2007	4,000	12.12
January 2, 2008	4,000	9.33
June 2, 2008	6,000	8.97
January 2, 2009	12,500	2.96
	37,595	

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 10 - EARNINGS PER SHARE

The following table is a reconciliation of the income (numerator) and weighted average shares (denominator) used in the calculation of basic earnings per common share and diluted earnings per common share in accordance with SFAS No. 128, Earnings Per Share. The computation of basic and diluted earnings per share is presented below.

	Year Ended December 31,		
	2008	2007	2006
Numerator:			
BASIC			
(Loss) income from Continuing Operations	$ (11,240)	$ 13,737	$ 4,119
Dividends paid on unvested restricted shares	(329)	(197)	(95)
Distributions to 8.0% Series A Preferred Shareholders	(4,800)	(4,800)	(4,800)
(Loss) income from continuing operations applicable to common shareholders	(16,369)	8,740	(776)
Income from Discontinued Operations	2,432	4,110	979
Net (Loss) income applicable to common shareholders	$ (13,937)	$ 12,850	$ 203
*DILUTED**			
(Loss) income from Continuing Operations	$ (11,240)	$ 13,737	$ 4,119
Dividends paid on unvested restricted shares	(329)	(197)	(95)
Distributions to 8.0% Series A Preferred Shareholders	(4,800)	(4,800)	(4,800)
(Loss) income from continuing operations applicable to common shareholders	(16,369)	8,740	(776)
Income from Discontinued Operations	2,432	4,110	979
Net (Loss) income applicable to common shareholders	$ (13,937)	$ 12,850	$ 203
Denominator:			
Weighted average number of common shares - basic	45,184,127	40,718,724	27,118,264
Effect of dilutive securities:			
Unvested stock awards	- **	- **	- **
Weighted average number of common shares - diluted*	45,184,127	40,718,724	27,118,264
Earnings Per Share:			
BASIC			
(Loss) income from continuing operations applicable to common shareholders	$ (0.36)	$ 0.22	$ (0.03)
Income from Discontinued Operations	$ 0.05	$ 0.10	$ 0.04
Net (loss) income applicable to common shareholders	$ (0.31)	$ 0.32	$ 0.01
*DILUTED**			
(Loss) income from continuing operations applicable to common shareholders	$ (0.36)	$ 0.22	$ (0.03)
Income from Discontinued Operations	$ 0.05	$ 0.10	$ 0.04
Net (loss) income applicable to common shareholders	$ (0.31)	$ 0.32	$ 0.01

* Income allocated to minority interest in the Partnership has been excluded from the numerator and OP Units have been omitted from the denominator for the purpose of computing diluted earnings per share since the effect of including these amounts in the numerator and denominator would have no impact. Weighted average OP Units outstanding for years ended December 31, 2008, 2007 and 2006 were 8,034,737, 5,464,670 and 3,554,361, respectively.

** Unvested stock awards have been omitted from the denominator for the purpose of computing diluted earnings per share for the years ended December 31, 2008, 2007 and 2006 since the effect of including these awards in the denominator would be anti-dilutive to income from continuing operations applicable to common shareholders.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 11 - CASH FLOW DISCLOSURES AND NON-CASH INVESTING AND FINANCING ACTIVITIES

Interest paid in 2008, 2007 and 2006 totaled $41,797, $40,594, and $25,349, respectively. The following non-cash investing and financing activities occurred during 2008, 2007 and 2006:

	2008	2007	2006
Common Shares issued as part of the Dividend Reinvestment Plan	$ 31	$ 30	$ 29
Issuance of Common Shares to the Board of Trustees	91	95	46
Issuance of OP Units for acquisitions of hotel properties	21,624	25,781	9,940
Debt assumed in acquisition of hotel properties	30,790	70,564	101,900
Issuance of OP Units for acquisition of unconsolidated joint venture	-	6,817	-
Issuance of OP Units for acquisition of option to acquire interest in hotel property	-	933	-
Conversion of OP Units to Common Shares	1,372	2,369	650
Reallocation to minority interest	1,966	12,422	3,467
Issuance of notes receivable in disposition of hotel properties held for sale	-	-	1,350

NOTE 12 - DISCONTINUED OPERATIONS

We follow the provisions of SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” which requires, among other things, that the operating results of certain real estate assets which have been sold, or otherwise qualify as held for disposition (as defined by SFAS No. 144), be included in discontinued operations in the statements of operations for all periods presented.

In September of 2005, our Board of Trustees authorized management of the Company to sell the Holiday Inn Express, Hartford, CT. The operating results for this hotel were reclassified to discontinued operations in the statements of operations in the statements of operations for the year ended December 31, 2006. The hotel was acquired by the Company in January 2004 and was sold on April 12, 2006. Proceeds from the sale were $3,600, and the gain on the sale was $497, of which $61 was allocated to minority interest in HHLP. During 2004, in conjunction with the acquisition of the Holiday Inn Express, Hartford, CT, we assumed a land lease from a third party with an original term of 99 years. Monthly payments as determined by the lease agreement were due through the expiration in September 2101. Subsequent to the sale of this property in the second quarter of 2006, we did not incur further lease expense. For the year ended December 31, 2006, we incurred $85 in hotel ground rent under this agreement, which have been reclassified to discontinued operations in the statement of operations. The lease was assumed by the purchaser of this property.

In March of 2006, our Board of Trustees authorized management of the Company to sell four properties located in metropolitan Atlanta, Georgia. These four properties are the Holiday Inn Express, Duluth, Comfort Suites, Duluth, Hampton Inn, Newnan and the Hampton Inn Peachtree City. The operating results for these hotels were reclassified to discontinued operations in the statements of operations for the year ended December 31, 2006. These hotels were acquired by the Company in April and May 2000 and were sold during November and December 2006. Proceeds from the sales were $18,100, and the gain on the sale was $290, of which $33 was allocated to minority interest in HHLP. Notes receivable in the aggregate amount of $1,350 were received as part of the proceeds of the sale of the Atlanta Portfolio and were repaid in September 2008.

In September of 2007, our Board of Trustees authorized management of the Company to sell the Hampton Inn, Linden, NJ (Hampton Inn) and Fairfield Inn, Mt. Laurel, NJ (Fairfield Inn). The Company acquired the Hampton Inn in October 2003 and the Fairfield Inn in January 2006. The operating results for these hotels have been reclassified to discontinued operations in the statements of operations for the years ended December 31, 2007 and 2006. Proceeds from the sales were $29,500, and the gain on the sale was $4,248, of which $503 was allocated to minority interest in HHLP.

In October 2008, the Company sold the Holiday Inn Conference Center, New Cumberland, PA (Holiday Inn). Beginning on July 1, 2006, the Company leased this hotel to an unrelated party and the lease agreement contained a purchase provision by the lessee. Prior to July 1, 2006, this hotel was leased to our wholly owned TRS and operating revenues and expenses of the hotel were recorded in hotel operating revenues and hotel operating expenses. The operating results for this hotel have been reclassified to discontinued operations in the statements of operations for the years ended December 31, 2008, 2007 and 2006. Proceeds from the sale of this property were $6,456 and the gain on this sale was $2,888, of which $436 was allocated to minority interest in HHLP.

We allocate interest and capital lease expense to discontinued operations for debt that is to be assumed or that is required to be repaid as a result of the disposal transaction. We allocated $145, $1,276 and $2,215 of interest and capital lease expense to discontinued operations for the years ended December 31, 2008, 2007, and 2006, respectively.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 12 - DISCONTINUED OPERATIONS (continued)

The following table sets forth the components of discontinued operations (excluding the gains on sale) for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Revenue:			
Hotel Operating Revenues	$ -	$ 6,685	$ 15,847
Hotel Lease Revenue	628	781	391
Total Revenue	628	7,466	16,238
Expenses:			
Interest and Capital Lease Expense	145	1,276	2,215
Hotel Operating Expenses	-	3,999	10,799
Hotel Ground Rent	-	-	85
Real Estate and Personal Property Taxes and Property Insurance	65	510	966
General and Administrative	3	-	-
Loss on Debt Extinguishment	19	-	-
Depreciation and Amortization	420	1,267	1,850
Total Expenses	652	7,052	15,915
Loss (Income) from Discontinued Operations before Minority Interest	(24)	414	323
Allocation to Minority Interest	4	(49)	(37)
(Loss) Income from Discontinued Operations	$ (20)	$ 365	$ 286

NOTE 13 - SHAREHOLDERS' EQUITY AND MINORITY INTEREST IN PARTNERSHIP

Common Shares

The Company's common shares are duly authorized, fully paid and non-assessable. 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.

Preferred Shares

The Declaration of Trust authorizes our Board of Trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any series from time to time in one or more series, as authorized by the Board of Trustees. Prior to issuance of shares of each series, the Board of Trustees is required by Maryland REIT Law and our Declaration of Trust to set for each such series, subject to the provisions of our Declaration of Trust regarding the restriction on transfer of shares of beneficial interest, the terms, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our Board of Trustees could authorize the issuance of additional preferred shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control in us that might involve a premium price for holders of common shares or otherwise be in their best interest.

Common Partnership Units

Units of interest in our limited partnership, or OP Units are issued in connection with the acquisition of wholly owned hotels and joint venture interests in hotel properties. The total number of OP Units outstanding as of December 31, 2008, 2007 and 2006 was 8,746,300; 6,424,915; and 3,835,586, respectively. These units can be converted to common shares which are issuable to the limited partners upon exercise of their redemption rights. 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. During 2008 and 2007, 175,843 and 306,460 common units were converted to Class A Common Shares, respectively.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 14 - INCOME TAXES

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1999. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its shareholders. It is the Company's current intention to adhere to these requirements and maintain the Company's qualification for taxation as a REIT. As a REIT, the Company generally will not be subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. 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 taxable income.

Taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes. 44 New England Company, a 100% owned taxable REIT subsidiary, and Revere Hotel Group LLC, a 55% owned taxable REIT subsidiary, (collectively "Consolidated TRS") are both entities subject to income taxes at the applicable federal, state and local tax rates.

In 2008, 2007 and 2006, 44 New England Management Company generated net operating losses (income) of $2,554, $707 and ($420), respectively. In 2008, 2007 and 2006, Revere Hotel Group LLC generated net operating losses of $265, $313, $521, respectively. The Company did not record an income tax expense (benefit) for the net operating losses generated in 2008, 2007 or 2006.

There was no income tax expense (benefit) recognized by the Consolidated TRS for 2008, 2007 and 2006.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as a result of the following differences:

	For the year ended December 31, 2008	2007	2006
Computed "Expected" federal tax expense (benefit) of TRS, at 35%	$ (1,251)	$ (270)	$ (451)
State income taxes, net of federal income tax effect	(181)	(66)	(6)
Changes in valuation allowance	1,432	336	457
Total income tax expense	$ -	$ -	$ -

The components of consolidated TRS's deferred tax assets as of December 31, 2008 and 2007 were as follows:

	as of December 31, 2008	2007
Deferred tax assets:		
Net operating loss carryforward	$ 3,185	$ 1,743
Depreciation	(29)	(19)
Net deferred tax assets	3,156	1,724
Valuation allowance	(3,156)	(1,724)
Deferred tax assets	$ -	$ -

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Consolidated TRS will not realize the benefits of these deferred tax assets at December 31, 2008.

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 14 - INCOME TAXES (continued)

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. The following table sets forth certain per share information regarding the Company's common and preferred share distributions for the years ended December 31, 2008, 2007 and 2006.

	2008	2007	2006
Preferred Shares - 8% Series A			
Ordinary income	86.46%	81.98%	83.05%
Capital Gain Distribution	13.54%	18.02%	16.95%
Common Shares - Class A			
Ordinary income	44.61%	48.25%	28.27%
Return of Capital	48.40%	41.14%	65.85%
Capital Gain Distribution	6.99%	10.61%	5.88%

[IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS]

NOTE 15 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Year Ended December 31, 2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Revenues	$ 55,607	$ 71,363	$ 75,933	$ 62,174
Total Expenses	58,642	62,757	69,855	86,599
(Loss) Income from Unconsolidated Joint Ventures	(738)	1,360	1,629	(2,768)
(Loss) Income before Minority Interests and Discontinued Operations	(3,773)	9,966	7,707	(27,193)
(Loss) Income Allocated to Minority Holders in Continuing Operations	(990)	1,738	1,417	(4,218)
(Loss) Income from Continuing Operations	(2,783)	8,228	6,290	(22,975)
(Loss) Income from Discontinued Operations (including Gain on Disposition of Hotel Properties)	(96)	(3)	45	2,486
Net (Loss) Income	(2,879)	8,225	6,335	(20,489)
Preferred Distributions	1,200	1,200	1,200	1,200
Net (Loss) Income applicable to Common Shareholders	$ (4,079)	$ 7,025	$ 5,135	$ (21,689)
Basic and diluted earnings per share:				
(Loss) Income from continuing operations applicable to common shareholders	$ (0.10)	$ 0.16	$ 0.11	$ (0.51)
Discontinued Operations	-	-	-	0.05
Net Loss (Income) applicable to Common Shareholders	$ (0.10)	$ 0.16	$ 0.11	$ (0.46)
Weighted Average Common Shares Outstanding				
Basic	40,891,140	44,253,641	47,764,168	47,770,780
Diluted	40,891,140	44,253,641	47,764,168	47,770,780

	Year Ended December 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total Revenues	$ 47,466	$ 64,529	$ 68,712	$ 61,326
Total Expenses	51,687	57,414	60,658	60,240
(Loss) Income from Unconsolidated Joint Ventures	(838)	1,741	1,680	893
(Loss) Income before Minority Interests and Discontinued Operations	(5,059)	8,856	9,734	1,979
(Loss) Income Allocated to Minority Holders in Continuing Operations	(981)	1,164	1,376	214
(Loss) Income from Continuing Operations	(4,078)	7,692	8,358	1,765
(Loss) Income from Discontinued Operations (including Gain on Disposition of Hotel Properties)	(160)	103	138	4,029
Net (Loss) Income	(4,238)	7,795	8,496	5,794
Preferred Distributions	1,200	1,200	1,200	1,200
Net (Loss) Income applicable to Common Shareholders	$ (5,438)	$ 6,595	$ 7,296	$ 4,594
Basic and diluted earnings per share:				
(Loss) Income from continuing operations applicable to common shareholders	$ (0.13)	$ 0.16	$ 0.18	$ 0.01
Discontinued Operations	-	-	-	0.10
Net (Loss) Income applicable to Common Shareholders	$ (0.13)	$ 0.16	$ 0.18	$ 0.11
Weighted Average Common Shares Outstanding				
Basic	40,537,851	40,642,569	40,807,626	40,882,090
Diluted	40,537,851	40,842,382	40,807,626	40,882,685

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2008
[IN THOUSANDS]

		Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Amounts at which Carrried at Close of Period			Accumulated Depreciation	Net Book Value	
Description	Encumbrances	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total	Buildings & Improvements*	Land, Buildings & Improvements	Date of Acquisition
Hampton Inn, Carlisle, PA	$ (3,477)	$ 300	$ 3,109	$ 200	$ 2,170	$ 500	$ 5,279	$ 5,779	$ (1,507)	$ 4,272	06/01/97
Holiday Inn Exp, Hershey, PA	-	426	2,645	410	3,429	836	6,074	6,910	(1,726)	5,184	10/01/97
Holiday Inn Exp, New Columbia, PA	-	94	2,510	66	771	160	3,281	3,441	(900)	2,541	12/01/97
Comfort Inn, Harrisburg, PA	(2,113)	-	2,720	214	1,184	214	3,904	4,118	(1,051)	3,067	05/15/98
Hampton Inn, Selinsgrove, PA	(2,905)	157	2,511	93	2,356	250	4,867	5,117	(1,574)	3,543	09/12/96
Hampton Inn, Danville, PA	-	300	2,787	99	1,170	399	3,957	4,356	(1,066)	3,290	08/28/97
HIE & Suites, Harrisburg, PA		213	1,934	81	1,083	294	3,017	3,311	(790)	2,521	03/06/98
Hampton Inn, Hershey, PA	(2,994)	807	5,714	4	1,365	811	7,079	7,890	(1,592)	6,298	01/01/00
Mainstay Suites, Frederick, MD	(2,537)	262	1,049	171	2,989	433	4,038	4,471	(712)	3,759	01/01/02
Mainstay Suites & Sleep Inn, KOP, PA		1,133	7,294	-	323	1,133	7,617	8,750	(1,433)	7,317	06/01/01
Hilton Garden Inn, Edison, NJ	(7,300)	-	12,159	-	331	-	12,490	12,490	(1,639)	10,851	10/01/04
Sheraton Four Points, Revere, MA	(8,148)	70	14,996	-	355	70	15,351	15,421	(3,720)	11,701	02/23/04
Residence Inn, Framingham, MA	(8,848)	1,325	12,737	-	768	1,325	13,505	14,830	(1,659)	13,171	03/26/04
Comfort Inn, Frederick, MD	(3,257)	450	4,342	-	90	450	4,432	4,882	(523)	4,359	05/27/04
Hilton Garden Inn, Gettysburg, PA	(5,031)	745	6,116	-	31	745	6,147	6,892	(692)	6,200	07/23/04
Hampton Inn, NYC, NY	(26,250)	5,472	23,280	-	106	5,472	23,386	28,858	(2,308)	26,550	04/01/05
Residence Inn, Greenbelt, MD	(12,047)	2,615	14,815	-	182	2,615	14,997	17,612	(1,702)	15,910	07/16/04
Fairfield Inn, Laurel, MD	-	927	6,120	-	992	927	7,112	8,039	(766)	7,273	01/31/05
Holiday Inn Exp, Langhorne, PA	(6,499)	1,088	6,573	-	58	1,088	6,631	7,719	(610)	7,109	05/26/05
Holiday Inn Exp, Malvern, PA	(4,038)	2,639	5,324	654	90	3,293	5,414	8,707	(489)	8,218	05/24/05
Holiday Inn Exp, KOP, PA	(12,849)	2,557	13,339	-	246	2,557	13,585	16,142	(1,250)	14,892	05/23/05
Courtyard Inn, Wilmington, DE	-	988	10,295	-	689	988	10,984	11,972	(1,041)	10,931	06/17/05
McIntosh Inn, Wilmington, DE	(12,631)	898	4,515	-	766	898	5,281	6,179	(529)	5,650	06/17/05
Residence Inn, Williamsburg, VA	(7,610)	1,911	11,625	13	606	1,924	12,231	14,155	(2,208)	11,947	11/22/05
Springhill Suites, Williamsburg, VA	(5,182)	1,430	10,293	(13)	60	1,417	10,353	11,770	(1,783)	9,987	11/22/05
Courtyard Inn, Brookline, MA	(38,913)	-	47,414	-	242	-	47,656	47,656	(4,218)	43,438	06/15/05
Courtyard Inn, Scranton, PA	(6,208)	761	7,193	-	1,099	761	8,292	9,053	(667)	8,386	02/01/06

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2008 (continued)
[IN THOUSANDS]

		Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Amounts at which Carrried at Close of Period			Accumulated Depreciation	Net Book Value	
Description	Encumbrances	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total	Buildings & Improvements*	Land, Buildings & Improvements	Date of Acquisition
Courtyard Inn, Langhorne, PA	$ (15,343)	$ 3,064	$ 16,068	$ -	$ 91	$ 3,064	$ 16,159	$ 19,223	$ (1,200)	$ 18,023	01/03/06
Fairfield Inn, Bethlehem, PA	(6,132)	1,399	6,778	-	328	1,399	7,106	8,505	(581)	7,924	01/03/06
Residence Inn, Tyson's Corner, VA	(9,044)	4,283	14,475	-	282	4,283	14,757	19,040	(1,084)	17,956	02/02/06
Hilton Garden Inn, JFK Airport, NY	(21,000)	-	25,018	-	423	-	25,441	25,441	(1,868)	23,573	02/16/06
Hawthorne Suites, Franklin, MA	(8,430)	1,872	8,968	-	113	1,872	9,081	10,953	(622)	10,331	04/25/06
Comfort Inn, Dartmouth, MA	(3,090)	902	3,525	-	497	902	4,022	4,924	(328)	4,596	05/01/06
Residence Inn, Dartmouth, MA	(8,880)	1,933	10,434	-	188	1,933	10,622	12,555	(706)	11,849	05/01/06
Holiday Inn Exp, Cambridge, MA	(10,972)	1,956	9,793	-	503	1,956	10,296	12,252	(716)	11,536	05/03/06
Residence Inn, Norwood, MA	-	1,970	11,761	-	152	1,970	11,913	13,883	(725)	13,158	07/27/06
Hampton Inn, Brookhaven, NY	(14,778)	3,130	17,345	-	863	3,130	18,208	21,338	(1,081)	20,257	09/06/06
Holiday Inn Exp, Hauppage, NY	(10,133)	2,737	14,080	-	685	2,737	14,765	17,502	(899)	16,603	09/01/06
Residence Inn, Langhorne, PA	-	1,463	12,094	94	889	1,557	12,983	14,540	(624)	13,916	01/08/07
Hampton Inn, Chelsea, NY	(36,000)	8,905	33,500	-	613	8,905	34,113	43,018	(1,999)	41,019	09/29/06
Hyatt Summerfield Suites, Bridgewater, NJ	(14,492)	3,373	19,685	-	159	3,373	19,844	23,217	(995)	22,222	12/28/06
Hyatt Summerfield Suites, Charlotte, NC	(7,330)	770	7,315	-	1,608	770	8,923	9,693	(565)	9,128	12/28/06
Hyatt Summerfield Suites, Gaithersburg, MD	(13,720)	2,912	16,001	-	309	2,912	16,310	19,222	(865)	18,357	12/28/06
Hyatt Summerfield Suites, Pleasant Hills, CA	(20,160)	6,216	17,229	-	137	6,216	17,366	23,582	(872)	22,710	12/28/06
Hyatt Summerfield Suites, Pleasanton, CA	(14,490)	3,941	12,560	-	142	3,941	12,702	16,643	(639)	16,004	12/28/06
Hyatt Summerfield Suites, Scottsdale, AZ	(16,778)	3,060	19,968	-	163	3,060	20,131	23,191	(1,011)	22,180	12/28/06
Hyatt Summerfield Suites, White Plains, NY	(33,030)	8,823	30,273	-	154	8,823	30,427	39,250	(1,528)	37,722	12/28/06
HIE & Suites, Chester, NY	(6,700)	1,500	6,671	-	43	1,500	6,714	8,214	(322)	7,892	01/25/07
Residence Inn, Carlisle, PA	(6,958)	1,015	7,511	-	24	1,015	7,535	8,550	(374)	8,176	01/10/07
Hampton Inn, Seaport, NY	(19,218)	7,816	19,040	-	143	7,816	19,183	26,999	(922)	26,077	02/01/07
Hotel 373-5th Ave, NYC, NY	(22,000)	14,239	16,778	-	78	14,239	16,856	31,095	(671)	30,424	06/01/07
Holiday Inn, Norwich, CT	-	1,984	12,037	-	123	1,984	12,160	14,144	(460)	13,684	07/01/07
Sheraton Hotel, JFK Airport, NY	-	-	27,315	-	52	-	27,367	27,367	(374)	26,993	06/13/08
Hampton Inn, Philadelphia, PA	-	3,490	24,382	-	2,798	3,490	27,180	30,670	(4,420)	26,250	02/15/06

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2008 (continued)
[IN THOUSANDS]

		Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Amounts at which Carrried at Close of Period			Accumulated Depreciation	Net Book Value	
Description	Encumbrances	Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total	Buildings & Improvements*	Land, Buildings & Improvements	Date of Acquisition
Duane Street, Tribeca, NY	$ (15,000)	$ 8,213	$ 12,869	$ -	$ 287	$ 8,213	$ 13,156	$ 21,369	$ (334)	$ 21,035	01/04/08
NU Hotel, Brooklyn, NY	(17,818)	-	22,042	-	2	-	22,044	22,044	(263)	21,781	01/14/08
Towneplace Suites, Harrisburg, PA	(9,250)	1,237	10,136	-	37	1,237	10,173	11,410	(165)	11,245	05/08/08
Holiday Inn Express, Camp Springs, MD	-	1,629	11,094	-	115	1,629	11,209	12,838	(146)	12,692	06/26/08
Hampton Inn, Smithfield, RI	(6,943)	2,057	9,486	-	17	2,057	9,503	11,560	(99)	11,461	08/01/08
Courtyard Inn, Alexandria, VA	(25,000)	6,376	26,089	-	214	6,376	26,303	32,679	(1,520)	31,159	09/29/06
8th Ave Land, NYC, NY	(13,250)	21,575	-	-	198	21,575	198	21,773	(12)	21,761	06/28/06
41st Street Facility, NYC, NY	(12,100)	10,735	11,051	-	(1)	10,735	11,050	21,785	(679)	21,106	07/28/06
Nevins Street Land, Brooklyn, NY	(6,500)	10,650	-	-	-	10,650	-	10,650	-	10,650	06/11/07 & 07/11/07
Total Investment in Real Estate	$ (603,376)	$ 182,793	$ 766,780	$ 2,086	$ 35,980	$ 184,879	$ 802,760	$ 987,639	$ (67,824)	$ 919,815	

*Assets are depreciated over a 7 to 40 year life, upon which the latest income statement is computed.

	2008	2007	2006
Reconciliation of Real Estate			
Balance at beginning of year	$ 878,099	$ 776,609	$ 318,865
Additions during the year	114,596	125,175	479,028
Dispositions during the year	(5,056)	(23,685)	(21,284)
Total Real Estate	$ 987,639	$ 878,099	$ 776,609
Reconciliation of Accumulated Depreciation			
Balance at beginning of year	$ 49,091	$ 33,373	$ 21,727
Depreciation for year	20,965	17,252	14,390
Accumulated depreciation on assets sold	(2,232)	(1,534)	(2,744)
Balance at the end of year	$ 67,824	$ 49,091	$ 33,373

The aggregate cost of land, buildings and improvements for Federal income tax purposes for the years ended December 31, 2008, 2007 and 2006 is approximately $894,596, $817,805, and $676,415, respectively.

Depreciation is computed for buildings and improvements using a useful life for these assets of 7 to 40 years.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A control system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined within Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness in internal control over financial reporting is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria contained in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission as of December 31, 2008. Based on that evaluation, management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(c) Audit Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of
Hersha Hospitality Trust:

We have audited Hersha Hospitality Trust and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hersha Hospitality Trust's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hersha Hospitality Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 5, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 5, 2009

(d) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2008, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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HERSHA

HERSHA HOSPITALITY TRUST (HT)

Corporate Officers

Jay H. Shah
Chief Executive Officer

Neil H. Shah
President and Chief Operating Officer

Ashish R. Parikh
Chief Financial Officer

Michael R. Gillespie
Chief Accounting Officer

David L. Desfor
Treasurer and Corporate Secretary

William J. Walsh
Vice President of Asset Management

Robert C. Hazard III
Vice President of Acquisitions and Development

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Philadelphia Executive Offices

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Telephone: (215) 238-1046
Facsimile: (215) 238-0157

Independent Auditors

KPMG LLP
Certified Public Accountants
1601 Market Street
Philadelphia, PA 19103
Telephone: (267) 256-7000

Registrar & Stock Transfer Agent

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

Legal Counsel

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

Common Stock Information

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

HERSHA

WWW.HERSHA.COM