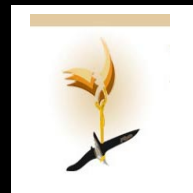


Eagle's Albatross Investor Alert



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EAGLE HOSPITALITY PROPERTIES (NYSE: EHP)

Stock Performance 10/1/04 (IPO) to 11/17/06: **-9.85%**

New Hotel Project Illustrates Conflict Between Eagle and Chairman William Butler

Corporex (the company whose founder and CEO is Eagle Chair William Butler) recently received approvals for a project in Northern Kentucky that may negatively impact Eagle. The project demonstrates another potential downside to the "strategic alliance" that Eagle has with Mr. Butler and Corporex. Eagle has not disclosed this project to its investors and in fact professed ignorance about it during Eagle's 3Q 2006 earnings call.

On Nov. 2, the City Commission of Newport, KY approved an agreement with Corporex to develop an \$880-million, multi-use project dubbed "Ovation" that includes a 476-room, full-service hotel (described by Corporex in its project proposal as "luxurious") and another 186-room select-service hotel. In a letter to Newport city officials, Mr. Butler deemed the project "the most significant development ever undertaken in northern Kentucky." Ovation's "project leader," Corporex Executive Vice President (and Eagle director) Thomas Banta, told the *Cincinnati Enquirer* that construction could begin in a year.

The Ovation hotel may have several negative impacts on Eagle, whether or not the company exercises its right to buy the full-service hotel under its "strategic alliance" agreement with Corporex:

1) An Eagle Purchase of the Ovation Hotel Would Contradict Its "Capital Recycling" Strategy:

An Eagle purchase of the Ovation hotel would reverse the company's stated strategy of "recycling capital" by reducing Midwest exposure and entering more promising markets - an approach that has been praised by analysts and validated by the superior performance generated by Eagle's acquired, non-Midwest hotels. An Eagle purchase of the Ovation hotel may be perceived negatively by the market and investors.

2) The Ovation Hotel Will Take Business Away from Eagle's Covington Hotels:

The upscale, 476-room hotel, whether it is owned by Eagle or not, will compete with Eagle's Embassy Suites and Marriott RiverCenter hotels in Covington, KY because it will be within 2 miles of both properties, according to Mapquest.com. In fact, both hotels already have sub-par performance: Eagle recently announced that "the portfolio's third quarter RevPAR increase was somewhat hindered by the lower than anticipated performance at the Company's three Cincinnati area hotels. The Company expects that group business will be an ongoing challenge at these hotels in the near term."

This isn't the first time that Corporex has sought to develop a hotel that might compete with an Eagle property. Last year, it bid to develop a Denver project with a hotel component, located 18.5 miles from Eagle's Denver Embassy Suites. In June of this year, Mr. Banta told the *Cincinnati Post* that Corporex had hired a new executive to increase the company's Denver presence "in a significant and meaningful way" and to "increase its Denver operations in all three of its product categories - condominium, hotel and office." According to Corporex's website, Phase 2 of the company's "Museum Residences" project in downtown Denver, located 20.5 miles from Eagle's Denver Embassy Suites, will include a 100-room boutique hotel.

2) The Ovation Hotels May Reduce the Salability of Eagle's Covington Hotels:

Eagle has stated their intent to sell up to 3 Midwestern hotels and analysts have listed the Embassy Suites RiverCenter as a likely hotel to be sold. The Ovation hotel may hurt the salability of any Kentucky hotels by further saturating the area market and thereby reducing the hotels' appeal to prospective buyers. In fact, the area is already experiencing negative supply changes that could be detrimental to Eagle hotels:

During Eagle's 3Q 2006 earnings call, CFO Raymond Martz noted that the two Covington hotels have

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suffered from a decline in group demand for the nearby Northern Kentucky Convention Center. Mr. Martz noted that the Convention Center had been "negatively impacted" by other new or renovated convention centers in the area such as the Duke Cinergy Cincinnati Convention Center which reopened last month after a \$135 million renovation, and convention-oriented hotels such as the new Louisville Marriott.

Last month, the Radisson Cincinnati Airport was rebranded as a Sheraton after undergoing a \$10 million renovation, according to the *Cincinnati Business Courier*. The Sheraton is also the only hotel located on the actual grounds of the Airport, whereas the Hilton Cincinnati Airport is over 5 miles away, according to Mapquest.com. The more upscale Sheraton flag and superior location may make that hotel a more effective competitor to Eagle's Hilton Cincinnati Airport.

Eagle and Corporex Are Not Communicating About Ovation:

Eagle and Corporex should be discussing Ovation to address the concerns raised above, but there seems to be little communication about the project at this point (despite the fact that Eagle Chair William Butler and director Thomas Banta are both involved in Ovation). During Eagle's 3Q 2006 earnings call, CEO William Blackham responded to an inquiry about Ovation by saying "We here at Eagle have very little knowledge of the specifics of the entire project. We've had no discussions whatsoever about Eagle's involvement. It is our understanding that the segment that will be potentially earmarked for that project, the hotel segment, is not upper, upscale full-service such as what we're in, but we just - we don't have the specifics of it yet and we've not had the conversation." As previously noted, Corporex's project proposal describes the 476-room hotel as "luxurious" so it would presumably qualify as the type of upscale property that Eagle owns.

Conclusion:

The Ovation project is another example of the potential conflicts that exist in the relationship between Eagle and Mr. Butler and his companies, Corporex and Commonwealth Hotels. This is not the first time that Corporex has sought to undertake development activity that could negatively impact Eagle, and there is no guarantee that it will be the last. Investors should seriously consider whether the benefits of the "strategic alliance" with Corporex outweigh the potential liabilities.