



InnVest

R · E · I · T

2010 ANNUAL AND SPECIAL MEETING

CEO Address

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Fairmont Royal York, Imperial Room, Toronto

Thank you, Majid. And thank you all for joining us today.

I will begin with a brief overview of InnVest's general business structure and competitive advantages. This will be followed by a look at the operating environment of 2009 and how we performed under the difficult economic circumstances that characterized the past year. I will then discuss the progress we have made toward strengthening our financial and operating foundation, and review our financial results for 2009 and the first part of 2010. Finally, I will conclude with an overview of our outlook and growth strategy.

Before I get started, I would like to draw your attention to the text on the screen regarding forward-looking information. Please note that further discussion on this is available on SEDAR, and is contained in our 2009 Annual Report, which is available here today.

Let me now begin with an overview of our business.

InnVest REIT is Canada's largest hotel real estate owner. Our 145 urban and suburban hotels are located in every Canadian province, and are diversified across most major business markets.

We have a 50% strategic investment in Choice Hotels Canada, the largest hotel franchiser in the country. This allows our 94 Comfort Inn and Quality hotels to benefit from favourable franchise terms. And we also enjoy the advantages of being a franchisor, which include influence over brand standards and future development.

We partner with 14 recognized international hotel brands, including Hilton, Fairmont, Delta, and Holiday Inn. Our strong partnership with these established brands helps to maximize the performance of our assets by providing name recognition, central reservation systems, quality standards and marketing and customer loyalty programs.

Additionally, our properties are run by four experienced hotel management companies with both Canadian and international industry expertise. These companies include Westmont Hospitality Group, Delta Hotels, Fairmont Hotels and Hilton Hotels. Together, they bring a range of valuable expertise to InnVest's varied portfolio of hotels.

Based on this description of InnVest's operations, the Trust's competitive strengths are clear:

- Our strong presence across Canada is unequalled by any other hotel company;
- We benefit from the advantages of being a franchisor;
- We have a diverse customer base;

- We have brand power;
- And our hotels are run by experienced industry professionals.

Now that you have a better sense of our company structure and market position, let me turn to a discussion of the hotel industry during 2009 and how InnVest performed within a challenging operating environment.

As you may have heard me state many times over the past year, the lodging industry is highly correlated to the general health of the economy. As such, the recessionary market conditions that characterized 2009 led to a broad decline in business and leisure travel spending during the year.

Although the Canadian lodging industry had a difficult year, we are encouraged by the fact that hotel occupancy remained relatively solid at 58% in 2009, declining by just 5 points. While the decline impacted our financial results, it also demonstrates that many people will continue to travel even in economically troubled times.

Additionally, although Canadian revenue per available room, or RevPAR, fell by 12.3% in 2009 over 2008, it compared favourably to the 17% decrease experienced in the U.S. I would further highlight that InnVest did better than the Canadian average. This reflects the relative strength of InnVest and the domestic economy generally.

The current operating environment is just another example of the many cycles of growth and contraction experienced by the Canadian lodging industry over the years due to economic and other external factors. In 2003, as you know, we experienced a similar contraction as a result of the SARS crisis, which had a temporary but significant impact on our operations. However, we recovered from this setback by leveraging our competitive strengths and focusing on cost containment strategies.

To weather the impact of the decline in travel spending seen in 2009, we drew on our experience from 2003 and took steps to manage our costs and strengthen our balance sheet. We also invested in marketing initiatives, leveraging InnVest REIT's brand power, size and diversified portfolio to maximize profitability.

One of the marketing initiatives we introduced during the year was our popular "Sleep-in Sundays" promotion, which gives guests the option to extend their check-out time to 3 p.m. We also redesigned our customer website to enable easy access to booking tools and information about our hotels and promotions.

As a result of our focused efforts, we consistently outperformed the market in top-line RevPAR during 2009, and our ADR dropped by just 3%, reflecting our success in limiting rate erosion.

We emerged from a challenging year well positioned for a recovery as the economy heals and travel spending increases. In the first half of 2010, we have seen a moderating rate of decline in our top-line performance, and we expect that this trend will lead to comparative growth as we enter the second half of the year.

To ensure that the REIT has a solid financial foundation in place to weather the inevitable challenges, we took steps during 2009 to strengthen our balance sheet.

First, we refinanced over \$190 million in mortgage maturities and renewed our \$40 million credit facility for a two-year term. We also raised \$100 million in capital through the issuance of \$50 million in equity and another \$50 million in convertible debentures.

Our completion of these transactions in a highly uncertain economic environment reflects the market's unwavering belief in InnVest's fundamental strength as a business and its prospects for future growth.

We now have no significant debt maturities until early 2011. The majority of this near-term debt includes extension options subject to certain conditions. We expect this to be a viable option for us and we are in active discussions with our lender to secure an early renewal.

In addition to our refinancing activities, we generated incremental liquidity through the sale of two non-strategic hotels. And the difficult but necessary decision to reduce

distributions during the year further enabled us to prudently manage our capital resources.

Our strong and stable balance sheet sets the stage for both near and long-term growth. We are proud of the progress that we made toward improving our financial position in 2009, a very difficult year, and we continue to actively manage our capital resources.

Let's turn now to a quick review of InnVest REIT's financial results for 2009 and the first quarter of 2010. Our results for both of these periods were released earlier this year.

Although our revenues were affected by the economy, our cost containment strategies helped to mitigate the impact of negative industry trends. As I noted earlier, we consistently outperformed the market in top-line RevPAR throughout the year.

InnVest's RevPAR declined by 10.7% in 2009 based on a 3.3% decrease in ADR and a nearly 5 point decline in overall occupancy. This compares favourably to the average industry decline in Canadian RevPAR of 12.3%.

Our revenues were \$595 million, a decline of about 10% from 2008.

Hotel expenses declined by 5.8% compared to the previous year, reflecting reduced occupancies as well as our successful efforts to manage costs throughout the Trust's portfolio.

Hotel operating income margins declined 330 basis points to about 24% in 2009. The decline reflects the weaker RevPAR recorded during the year, partially offset by savings generated through improved cost management across the portfolio.

InnVest generated funds from operations of about \$73 million in 2009, or \$0.94 per unit diluted. This represents a decline of 32% from 2008.

Distributable income for the year declined to about \$51 million, or \$0.67 per unit diluted, while distributions declared were also \$51 million.

Accordingly, our payout ratio for 2009 was 99.6%. This was higher than the payout ratio of 91.7% recorded in 2008, largely reflecting lower earnings achieved. If we take into account the reduction in distributions and the higher number of units issued for the full year, our payout ratio would have been 85%.

Our achievement of relatively good results in a particularly challenging period for the lodging industry demonstrates the fundamental strength of our business model and the success of our focused efforts to offset the impact of a weak economy. Today we remain confident in the long-term growth prospects of both the industry and our business.

Looking briefly now at our results for the first quarter of 2010, we continued to see a slowing of the decline in our top-line performance and saw other tangible signs of improvement.

RevPar in the first quarter was down 4.7%, compared to a decline of 10.8% in the fourth quarter of 2009. And ADR declined 1.5%, compared to the 3.3% decrease recorded in the fourth quarter.

Given that the first quarter is typically the slowest earnings period for the hotel industry, our improving results during the quarter were encouraging.

Now that you have a good sense of our current financial and operating position, let's take a look at InnVest's outlook for the remainder of 2010 and beyond within the larger context of the recovering hotel industry.

History tells us that the industry's growth will lag economic recovery until consumers and businesses gain confidence in the stability of the markets. North American economies are showing some signs of improvement, and the lodging industry is benefitting from corresponding operating trends.

In the short term, we expect this recovery to remain gradual until we have signs of a sustainable economic rebound. And looking to the longer term, the combination of

economic recovery and limited new hotel supply has set the stage for a period of continued growth.

In fact, data from previous downturns experienced by the hotel industry shows that each cycle has peaked higher than the last. This trend, in combination with our diversified portfolio of quality hotels in convenient locations, indicates that we are well positioned to benefit from the upswing in business and leisure travel that is expected to occur this year.

In order to maintain a growth trajectory and maximize the performance of each of our hotels, we intend to continue prudently managing our costs while investing in additional marketing initiatives such as our Shades of Summer promotion. We are also actively pursuing the sale of certain underperforming non-core assets to optimize our portfolio.

Despite lingering turbulence in world markets, investors are demonstrating confidence in InnVest's future as a strong and profitable company. Our unit price has almost doubled from early last year and we believe our units continue to represent exceptional value for investors, yielding about 8% at current price and distribution level.

Furthermore, we are trading at a Funds From Operations multiple of about 7.5 times, below our historical trading range despite current depressed cash flows, and well below U.S. lodging peers whose FFO multiples are in the teens. This bodes well for future unit price growth opportunities.

Our plan for the remainder of 2010 and beyond is simple and focused. Through efforts to address upcoming maturities, we will continue to manage our liquidity and cash flow.

And we intend to maximize internal growth using the following strategies:

1. First, by working with our leading hotel management groups and brands to manage yield and market strategies to maximize RevPAR.
2. Second, by controlling costs through operating efficiencies and taking advantage of our buying power and economies of scale. Ours is a pennies business, so even small changes to costs across our 19,000 hotel rooms can create meaningful savings.
3. Third, we are focused on investing in the portfolio to enhance the value of our assets and drive higher returns. As an example, we are currently investing about \$6 million in our Fairmont Palliser hotel in Calgary to improve its guest room product. By undertaking this investment in a period of lower occupancies, we are positioning the hotel to benefit as the economy recovers.

And finally, although we are well-positioned to take advantage of acquisition opportunities, the hotel transaction environment has been slow due to the constrained credit market. However, we intend to actively review any opportunities as they become available.

We are in an ideal position to execute on our strategies and to benefit from the market's rebound. Because top-line revenue growth does not require significant cost additions, we anticipate a meaningful impact on profitability as, and when, demand trends improve.

As we move toward a brighter future, we will continue to leverage InnVest's inherent competitive strengths. These include our diversified operations, our large scale, our recognized brands, – many of which are household names – our ongoing strategic investment, an experienced management team and our access to capital.

Although InnVest, along with the rest of the world, faced numerous challenges in 2009, our focus on supporting the company's long-term successes even in hard times has allowed us to emerge in a position of strength.

We've been through a difficult year and we are not totally out of the woods yet. But we have about \$85 million in the bank to take care of upcoming debt maturities and we have undrawn credit balances if we need them. We are seeing slowing rates of decline in our key metrics and we are cautiously optimistic about a recovery in the hotel industry.

I would like to take this opportunity to thank all of those who have demonstrated unwavering dedication to InnVest over the years. To our employees, thank you for your continued commitment and hard work. To our customers, thank you for your business. To our Board of Trustees, thank you for your insightful direction and counsel during this challenging period.

And to our unitholders, thank you for your ongoing support as we work to make InnVest a better and stronger company. Your approval of today's proxy vote is further confirmation that this company's growth and success is the result of a team effort.

That concludes the presentation.

I would now be happy to take your questions.