HPT
HOSPITALITY PROPERTIES TRUST

Hospitality

Hospitality Properties Trust

annual report 2005.

Hospitality Properties Trust

Hospitality Properties Trust is a real estate investment trust, or REIT, which primarily owns hotels located throughout the United States. The company's properties are operated under 15 national brands by unaffiliated hotel operating companies under long term management and lease agreements. As of December 31, 2005, HPT owned 298 hotels with approximately 42,000 rooms located in 38 states, Puerto Rico and Canada.

Since its IPO in 1995 through December 31, 2005, HPT has provided shareholders with average total annual returns of 14.2%. HPT has been investment grade rated since 1998 and is included in a number of financial indices, including the S&P 400 MidCap Index, Russell 1000®, the MSCI US REIT Index, S&P REIT Composite Index and the FTSE NAREIT Composite Index.

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Financial Highlights

(amounts in thousands, except per share amounts)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
INCOME STATEMENT DATA:					
Total revenues[1]	$ 834,412	$ 645,368	$ 552,801	$ 348,706	$ 303,877
Net income available for common shareholders[1][2]	122,247	114,624	223,433	134,630	124,831
Calculation of funds from operations:[3]					
Net income available for common shareholders	122,247	114,624	223,433	134,630	124,831
Add: FFE deposits not in net income[4]	1,941	1,767	9,769	14,840	14,355
Depreciation and amortization	131,792	114,883	104,807	96,474	91,395
Loss on asset impairment[5]	7,300	–	–	–	–
Excess of liquidation preference over carrying value of preferred shares[6]	–	2,793	–	–	–
Loss on early extinguishment of debt	–	–	2,582	1,600	–
Less: Gain on lease terminations	–	–	(107,516)	–	–
Gain on sale of real estate	–	(203)	–	–	–
Funds from operations (FFO)	263,280	233,864	233,075	247,544	230,581
Common distributions declared	205,162	193,523	180,242	179,504	168,447
Common distributions as a percent of FFO	78%	83%	77%	73%	73%
PER COMMON SHARE DATA:					
Net income available for common shareholders[1][2]	$ 1.75	$ 1.72	$ 3.57	$ 2.15	$ 2.12
Funds from operations	3.77	3.52	3.72	3.96	3.91
Common distributions declared [7]	2.90	2.88	2.88	2.87	2.83
Weighted average common shares outstanding	69,866	66,503	62,576	62,538	58,986
BALANCE SHEET DATA (AS OF DECEMBER 31):					
Real estate properties, at cost	$ 3,626,693	$ 3,180,990	$ 3,179,507	$ 2,762,322	$ 2,629,153
Total assets	3,114,607	2,689,425	2,761,601	2,403,756	2,354,964
Total borrowings	960,372	697,505	826,126	473,965	464,781
Total shareholders' equity	1,855,455	1,685,873	1,645,528	1,645,020	1,604,519
Borrowings as a percent of real property	26%	22%	26%	17%	18%

(1) For 2003, total revenues and net income available for common shareholders includes gain on lease terminations of $107,516 or $1.72 per common share.

(2) Net income available for common shareholders is net income reduced by preferred distributions and the excess of liquidation preference over carrying value of preferred shares (see note 6).

(3) We compute FFO as shown in the calculation above. Our calculation of FFO differs from the NAREIT definition because we include FF&E deposits not included in net income (see note 4), exclude the loss on asset impairment (see note 5), the excess of liquidation preference over carrying value of redeemed preferred shares (see note 6), the loss on early extinguishment of debt not settled in cash and gain on lease terminations (see note 1). We consider FFO to be an appropriate measure of performance for a REIT, along with net income and cash flow from operating, investing and financing activities. We believe that FFO provides useful information to investors because by excluding the effects of certain historical costs, such as depreciation expense and losses on early extinguishment of debt, it may facilitate comparison of current operating performance among REITs. FFO does not represent cash generated by operating activities in accordance with generally accepted accounting principles, or GAAP, and should not be considered an alternative to net income or cash flow from operating activities as a measure of financial performance or liquidity. FFO is one important factor considered by our board of trustees in determining the amount of distributions to shareholders. Other important factors include, but are not limited to, requirements to maintain our status as a REIT, limitations in our revolving bank credit facility and public debt covenants, the availability of debt and equity capital to us and our expectation of our future capital needs and operating performance.

(4) Some of our leases provide that escrows to fund periodic renovations, or FF&E reserve, are owned by us. Other leases provide that FF&E reserve escrows are owned by the tenants and we have a security and remainder interest in the escrow accounts. When we own the escrow, payments into the escrow are reported as revenue. When we have a security and remainder interest in the escrow account, deposits are not included in revenue but are included in FFO.

(5) In connection with our decision, to pursue the sale of our Prime Hotel[SM] in Atlanta, Georgia we recorded a $7,300 loss on asset impairment in the second quarter of 2005 to reduce the carrying value of the hotel to its estimated net realizable value less the cost to sell. We sold the hotel on September 30, 2005.

(6) On April 12, 2004, we redeemed all of our outstanding 9 1/2% Series A Preferred Shares at their liquidation preference of $25 per share, plus accumulated and unpaid dividends. We deducted the $2,793 excess of the liquidation preference of the redeemed shares over their carrying amount from net income in determining net income available to common shareholders in the calculation of earnings per share.

(7) Distributions presented include distributions declared with respect to the period shown.

Hospitality Properties Trust

President's Letter to Shareholders

Dear Fellow Shareholders:

As the recovery in the lodging sector accelerated and industry average RevPAR grew at a record pace, 2005 was another year of growth and improving results at HPT. Business and leisure travel continues to improve across the U.S., albeit somewhat unevenly, and the rate of development of new competing hotels remains well below historical average levels. These trends appear likely to continue at least through 2006 and perhaps beyond. Accordingly, we are hopeful for continued improvement in the financial performance of our hotels, which now number 307.

There were many positive developments for HPT since the end of 2004:

- In February 2005, we closed on the purchase of 12 of 13 hotels we had agreed to acquire from InterContinental Hotels Group, or IHG. These 13 hotels included four InterContinental, four Crowne Plaza, three Holiday Inn and two Staybridge Suites hotels located in six states, San Juan, Puerto Rico and Toronto, Canada. IHG manages 11 of these hotels for HPT and leases the San Juan InterContinental from us under long term agreements.

- In February 2005, we took advantage of historically low interest rates by issuing $300 million of 5.125% senior notes due 2015. The proceeds were used, together with borrowings on our revolving credit facility, to acquire from IHG the hotels discussed above.

- In May 2005, we closed on the purchase of the Stephen F. Austin InterContinental in Austin, Texas which was part of the 13 hotel IHG transaction noted above, and IHG now manages this hotel for us.

- In June 2005, we took advantage of favorable equity market conditions and issued 4.7 million common shares at $44.39 raising net proceeds of approximately $199.2 million which were used to repay borrowings outstanding under our credit facility.

- In May 2005, we amended and restated our revolving credit facility increasing the maximum borrowing amount from $350 million to $750 million and reducing our interest rate from LIBOR plus 135 to LIBOR plus 80 basis points. This facility, which matures in 2009, allows us a one year extension option and has an accordion feature which allows us to increase the line's capacity to $1.5 billion subject to certain conditions.

- In October 2005, both Standard & Poors Rating Services and Moody's Investors Service raised the ratings of our senior unsecured obligations to BBB and Baa2 from BBB- and Baa3, respectively, reflecting our strong balance sheet, financial flexibility and proven performance through market cycles. The interest rate on our revolving credit facility was reduced to LIBOR plus 65 basis points as a result of these ratings increases. HPT today remains the only investment grade rated hotel REIT.

- In January 2006, we announced the acquisition of the Harbor Court Complex on Baltimore's Inner Harbor for $78 million.

- Also in January 2006, we reached agreement to acquire nine hotels for $196 million including five Crowne Plaza hotels, a Holiday Inn Select which we expect to rebrand as a Crowne Plaza, two Staybridge Suites hotels and a Holiday Inn Sunspree Resort. We closed on the purchase of eight of these hotels effective January 20th and have delayed the closing on the resort hotel pending receipt of certain tax and regulatory approvals.

We are optimistic about our prospects for a successful year in 2006. However, the good news regarding expectations for further industry improvement also presents challenges. The amount of investment capital available for hotel real estate appears to be at unprecedentedly high levels. Hotel prices in many markets no longer appear to take into account industry cyclicality or replacement costs. At the same time, external risks including increasing energy costs, pressure for wage increases, especially in many urban markets, interest rate uncertainty and the continuing war on terrorism do not appear to be appropriately factored into some hotel industry underwriting decisions. We remain committed to our business model and intend to remain disciplined in our investment methodology, completing only transactions we believe will provide attractive returns throughout lodging cycles. We remain grateful to our shareholders for their continued support.

Sincerely,

John G Murray

John G. Murray
President
March 31, 2006

Management's Discussion and Analysis

of Financial Condition and Results of Operations

OVERVIEW

The following information should be read in conjunction with our consolidated financial statements and accompanying notes included in this Annual Report.

HOTEL INDUSTRY CONDITIONS

During 2005, the U.S. hotel industry benefited from an expanding economy and limited new hotel supply. For 2005, nine of our ten combinations of hotels reported increases in revenue per available room, or RevPAR; however, our hotels' profitability generally remained below 2000 levels. All of our operating agreements and leases contain security features, such as security deposits or guarantees, which are intended to protect payment of minimum returns and rents to us. However, the effectiveness of these various security features to provide uninterrupted payments to us is not assured. If any of our hotel operators, tenants or guarantors default in their payment obligations to us, our revenues and cash flows may decline and our ability to continue to pay distributions may be jeopardized.

2005 DEVELOPMENTS
(dollar amounts in thousands, except per share amounts)

On December 17, 2004, we agreed to purchase 13 hotels from InterContinental Hotels Group, plc, or InterContinental, for $450,000. The hotels include four full service InterContinental® hotels, four full service Crowne Plaza® hotels, three full service Holiday Inn® hotels and two extended stay Staybridge Suites® hotels; they have a total of 3,946 rooms/suites and approximately 164,000 square feet of meeting space. The hotels are located in six states in the United States; one InterContinental® hotel and one Staybridge Suites® hotel are located in Ontario, Canada; and one InterContinental® hotel is located in San Juan, Puerto Rico. The $450,000 purchase price includes $25,000 which we have agreed to pay during the three years following the closing in connection with certain improvements to the hotels. On February 16, 2005, we completed the acquisition of 12 of the 13 hotels. On May 31, 2005, we completed the purchase of the final hotel.

Simultaneously with our purchase of these hotels, we entered a long term combination management agreement for 12 of the hotels and a long term lease for one hotel, the InterContinental® hotel in San Juan, Puerto Rico, with subsidiaries of InterContinental. The combined annual amount payable to us for all 13 hotels as minimum return under the management agreement and minimum rent under the lease was $34,713 in 2005, increases to $37,688 in 2006, increases to approximately $38,537 in 2007 and increases to approximately $38,962 after the full $450,000 purchase price has been paid. In addition, we are entitled to receive additional return payments, a percentage of gross revenue over threshold amounts at these hotels starting in 2008 and the cash flow remaining after base and incentive management fees are paid. The minimum return under the management agreement and the minimum rent under the lease are calculated and payable in U.S. dollars. Other amounts due under these agreements, with respect to the two hotels located in Canada, may be calculated in Canadian dollars, but will be payable in U.S. dollars. The management agreement and the lease each extend through 2029, and InterContinental has two all or none renewal options for 15 years each. The obligations to pay the minimum return under the management agreement and the minimum rent under the lease are supported by a limited guaranty from InterContinental until the operations at these hotels reach negotiated levels. Further, the obligation to pay the minimum return under the management agreement is also supported by a limited guaranty from the InterContinental subsidiary tenant for the Puerto Rico hotel. The agreements also require a reserve for capital expenditures starting in 2007.

In October 2004, Blackstone Group, or Blackstone, acquired Prime Hospitality Corporation, or Prime, and in January 2005, Blackstone sold Prime's AmeriSuites® brand to Global Hyatt Corporation, or Hyatt. As part of its AmeriSuites® acquisition, Hyatt acquired the rights and obligations under our management agreement covering 36 hotels (24 AmeriSuites® hotels and 12 Prime Hotels℠) previously managed by Prime. On April 4, 2005, we entered into new management agreements with subsidiaries of Hyatt and Carlson Hotels Worldwide, or Carlson, with respect to this portfolio of 36 hotels. The new management agreements split the previous management agreement we had with Prime into two: one with Hyatt for our 24 AmeriSuites® hotels and one with Carlson for our 12 Prime Hotels℠. The economic terms of the new management agreements on a combined basis are unchanged from our previous management agreement with Prime, but, because the two management agreements each include a smaller number of hotels and are less diverse, certain security features, including the guarantees from Hyatt and Carlson, have been changed.

During the second quarter of 2005, 11 of our Prime Hotels℠ were rebranded to Carlson hotel brands, including Radisson Hotels & Resorts®, Country Inns & Suites by Carlson® and Park Plaza® Hotels & Resorts. In June 2005, we authorized Carlson to pursue the sale of the 12th Prime Hotel℠ located in Atlanta, Georgia. In connection with this decision we recorded a $7,300 loss on asset impairment in the second quarter of 2005 to reduce the carrying value of the hotel to its estimated net realizable value less cost to sell. We sold this hotel on September 30, 2005, for $3,227. On November 1, 2005, we acquired a Country Inns & Suites by Carlson® hotel located in Brooklyn Center, Minnesota with 84 guestrooms from Carlson for $4,100 as a replacement hotel to be added to this combination. Under the terms of our management agreement with Carlson our annual minimum return has been increased by a net $78.

SUBSEQUENT EVENTS

On January 6, 2006, we purchased the Harbor Court Complex in the Inner Harbor area of Baltimore, Maryland for $78,000. The Harbor Court Complex is a mixed use development comprised of the five star, five diamond Harbor Court Hotel, a 72,042 square foot office building and a 530 space seven story parking garage. The hotel has 195 guest rooms, including 22 suites, 8,000 square feet of meeting space and a roof top fitness center that includes a tennis court, squash court, indoor pool, aerobics center and spa therapy rooms. Simultaneously with this purchase, we entered into an agreement with InterContinental to manage the Harbor Court Hotel under its InterContinental Hotels & Resorts® brand. This hotel has been added to the combination agreement for 13 hotels we acquired from InterContinental in 2005 as described above. Our annual minimum return from this expanded combination of hotels will increase by $4,800 in 2006, $5,200 in 2007 and $5,300 per year thereafter. We have agreed to invest up to $2,300 over the next two years in connection with the rebranding of the Harbor Court Hotel as the InterContinental® Harbor Court Baltimore. In addition to the returns generated by the hotel component of the complex, we will receive the net cash flow from the office and parking parts of the property; and we have entered into a management agreement with Reit Management & Research LLC, or RMR, to operate the office building and an agreement with an unaffiliated third party to manage the parking garage.

On January 25, 2006, we agreed to purchase nine hotels for $196,200 and to invest $25,100 in these hotels during the three years following closing to fund capital improvements. The hotels include five full service Crowne Plaza® hotels, one full service Holiday Inn Select® hotel, two Staybridge Suites® hotels and one Holiday Inn SunSpree Resort® hotel; they have a total of 2,712 rooms/suites and approximately 68,000 square feet of meeting space. These hotels are located in three states in the United States and the Holiday Inn SunSpree Resort® hotel is located in Montego Bay, Jamaica. On January 25, 2006, we completed the acquisition of eight of the nine hotels with an effective date of January 20, 2006. The purchase of the 524 room Holiday Inn SunSpree Resort® hotel for approximately $30 million was delayed pending Jamaican tax and regulatory approvals, and is expected to close later in 2006. Circumstances may delay this purchase for an extended period or prevent its occurring. Simultaneous with our purchase of these eight hotels, we entered a long term combination management agreement with subsidiaries of InterContinental, and simultaneous with the purchase of the Holiday Inn SunSpree Resort® we expect to enter a long term lease with a subsidiary of InterContinental. The annual combined amount payable to us for all nine hotels as a minimum return under the management contract and minimum rent under the lease will be $15,800 in 2006, $17,800 in 2007, $18,700 in 2008 and approximately $19,000 thereafter, after the full $25,100 of planned hotel improvements have been funded by us. In addition, we are entitled to receive additional return payments, a percentage of gross revenue over a threshold at these hotels starting in 2008 and the cash flow remaining after the payment of base and incentive management fees. The minimum return under the management agreement and the minimum rent under the lease are calculated and payable in U.S. dollars. Other amounts due under these agreements with respect to the hotel in Jamaica may be calculated in Jamaican dollars but will be payable in U.S. dollars. The management agreement and the lease each extend through 2030, and InterContinental has two all or none renewal options for 15 years each. The obligations to pay the minimum return under the management agreement and the minimum rent under the lease are supported by a limited guaranty from InterContinental until the operations at these hotels reach negotiated levels. Further, the obligation to pay the minimum return under the management agreement will also be supported by a limited guaranty from the InterContinental subsidiary tenant for the hotel in Jamaica. The agreements also require a reserve for capital expenditures starting in 2008.

MANAGEMENT AGREEMENTS AND LEASES

As of December 31, 2005, each of our 298 hotels is included in one of ten combinations of hotels which is either leased to one of our wholly owned taxable REIT subsidiaries, or TRSs, and managed by an independent hotel operating company or leased to a third party. At December 31, 2005, we had 189 managed hotels and 109 leased hotels. Our consolidated income statement includes hotel operating revenues and expenses of our managed hotels, and only rental income for leased hotels. After the acquisition of nine hotels in January 2006, described above, we own 307 hotels of which 198 are managed and 109 are leased. Additional information regarding the terms of our management agreements and leases is included in the table on pages 12 and 13.

RESULTS OF OPERATIONS
(dollar amounts in thousands, except per share amounts)

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

	For the year ended December 31,			
	2005	2004	Increase (Decrease)	% Increase (Decrease)
	(amounts in dollars, except number of shares)			
Hotel operating revenues	$ 682,541	$ 498,122	$ 184,419	37.0%
Rental income:				
Minimum rent	126,829	125,669	1,160	0.9%
Percentage rent	3,902	2,803	1,099	39.2%
FF&E reserve income	19,767	18,147	1,620	8.9%
Interest income	1,373	627	746	119.0%
Hotel operating expenses	476,858	333,818	143,040	42.8%
Interest expense	65,263	50,393	14,870	29.5%
Depreciation and amortization	131,792	114,883	16,909	14.7%
General and administrative	23,296	19,386	3,910	20.2%
Loss on asset impairment	7,300	–	7,300	–
Gain on sale of real estate	–	203	(203)	–
Net income	129,903	127,091	2,812	2.2%
Net income available for common shareholders	122,247	114,624	7,623	6.7%
Weighted average shares outstanding	69,866	66,503	3,363	5.1%
Net income available for common shareholders per common share	$ 1.75	$ 1.72	$ 0.03	1.7%

The increases in hotel operating revenues and expenses were caused by the increase in the number of managed hotels in 2005 due to our February and May 2005 hotel acquisitions and the general increase in hotel revenues due to the improving lodging industry conditions during 2005.

Pro forma annual hotel operating revenues of our 189 managed hotels, which includes revenues for periods prior to our ownership of some of these hotels and for periods when some of the hotels were leased from us by third parties and excludes revenues from the hotel sold on September 30, 2005, were $704,170 for 2005, an increase of 8.5% from pro forma annual hotel operating revenues of $649,222 for 2004. The increase in revenues is attributable primarily to the improving lodging market that has resulted in improved occupancy and average daily room rate at many of our hotels, which was partially offset by lower revenues at our former Prime Hotels℠ during their transition to Carlson branded operations. As described above, we transferred operating responsibility for our Prime Hotels℠ to Carlson on April 4, 2005. During the second quarter of 2005, 11 of these 12 hotels were rebranded with Carlson brands and are currently undergoing renovations which have required some hotel rooms to be taken out of service. We sold the 12th Prime Hotel℠ in September 2005.

Pro forma annual hotel operating expenses of our managed hotels, which includes expenses for periods prior to our ownership of some of these hotels and for periods when some of the hotels were leased from us by third parties and excludes revenues from the hotel sold on September 30, 2005, were $504,525 for 2005, an increase of 5.1% from pro forma annual hotel operating expenses of $480,000 for 2004. This increase is primarily a result of higher hotel occupancies and increases in the cost of labor and utilities.

Certain of our managed hotels had net operating results that were $2,491 and $10,595 less than the minimum returns due to us in 2005 and 2004, respectively. These amounts are reflected in our consolidated statement of income as a net reduction to hotel operating expenses in these years because the minimum returns were funded by our managers.

The increase in minimum rental income is primarily a result of the initiation of a new lease for our hotel in San Juan, Puerto Rico in February 2005, and the increase in minimum rent resulting from our funding of improvements at certain of our leased hotels in 2005 and 2004. This increase was partially offset by the elimination of $5,222 of minimum rent for seven of our hotels which were leased to third parties for a portion of 2004 but are now managed for our account. The increase in percentage rental income is the result of increased sales at our leased hotels.

FF&E reserve income represents amounts paid by our tenants into restricted accounts owned by us, the purpose of which is to accumulate funds for future capital expenditures. The terms of our leases require these amounts to be calculated as a percentage of total sales at our hotels. The increase in FF&E reserve income is primarily due to increased levels of hotel sales in 2005 versus 2004 at our leased hotels. This increase was partially offset by the elimination of FF&E reserve income for seven hotels which were leased to third parties for a portion of 2004, but are now managed for our account. The amounts which are escrowed as FF&E reserves for our managed hotels and for leased hotels where the FF&E reserve is owned by our tenants are not reported as FF&E reserve income in our consolidated statement of income.

The increase in interest income is due to higher average cash balances and higher average interest rates during 2005.

The increase in interest expense is primarily due to higher average borrowings, which was partially offset by a lower weighted average interest rate during 2005 than in 2004.

The increase in depreciation and amortization is due principally to the depreciation of 14 hotels acquired during 2005 and the impact of the purchases in 2005 and 2004 of depreciable assets with funds from FF&E reserve accounts owned by us. This increase was offset to some extent by the sale of hotels in April 2004 and September 2005 and the retirement of fully depreciated assets of $71,089 and $50,619 during 2005 and 2004, respectively.

The increase to general and administrative expense is due principally to the impact of additional hotel investments during 2005.

We recorded a $7,300 loss on asset impairment to reduce the carrying value of our Prime Hotel℠ in Atlanta, Georgia to its net realizable value less cost to sell in the 2005 second quarter. We sold this hotel on September 30, 2005, for $3,227.

We recorded a $203 gain on the sale of a Summerfield Suites® hotel located in Buckhead, Georgia in the 2004 second quarter.

Our 2004 income available to common shareholders was reduced by $2,793 as a result of our redemption of our Series A preferred shares, which amount reflects the excess of the redemption payments over the carrying value of these preferred shares before their redemption.

The increases in net income, net income available for common shareholders and net income available for common shareholders per common share were primarily due to the investment and operating activities discussed above. The increase in net income available for common shareholders and net income available for common shareholders per common share were also impacted by the reduction in 2005 of preferred dividends and the preferred share redemption costs due to the redemption of our Series A preferred shares in April 2004. On a per share basis, the percentage increase in net income available for common shareholders was lower due to our issuance and sale of 4.7 million common shares in June 2005.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

	For the year ended December 31,			
	2004	2003	Increase (Decrease)	% Increase (Decrease)
	(amounts in dollars, except number of shares)			
Hotel operating revenues	$ 498,122	$ 209,299	$ 288,823	138.0%
Rental income:				
Minimum rent	125,669	216,125	(90,456)	(41.9%)
Percentage rent	2,803	1,128	1,675	148.5%
FF&E reserve income	18,147	18,000	147	0.8%
Interest income	627	733	(106)	(14.5%)
Gain on lease terminations	–	107,516	(107,516)	–
Hotel operating expenses	333,818	145,863	187,955	128.9%
Interest expense	50,393	44,536	5,857	13.2%
Depreciation and amortization	114,883	104,807	10,076	9.6%
General and administrative	19,386	16,800	2,586	15.4%
Loss on early extinguishment of debt	–	2,582	(2,582)	–
Gain on sale of real estate	203	–	203	–
Net income	127,091	238,213	(111,122)	(46.6%)
Net income available for common shareholders	114,624	223,433	(108,809)	(48.7%)
Weighted average shares outstanding	66,503	62,576	3,927	6.3%
Net income available for common shareholders per common share	$ 1.72	$ 3.57	(1.85)	(51.8%)

The increases in hotel operating revenues and expenses were caused by the increase in the number of managed hotels in 2004 due to: (i) our July 2003 acquisition of 16 hotels and the initiation of a management agreement for these hotels; (ii) the change of 13 hotels from leased to managed hotels after the 2003 first quarter; (iii) the initiation of a new management agreement on December 31, 2003, for 64 hotels previously leased to Candlewood Hotel Company, or Candlewood, and for 12 hotels purchased from Candlewood on that day; (iv) the initiation of a new management agreement on January 1, 2004, for 24 hotels previously leased to Prime; (v) the initiation of management agreements and the termination of leases for 27 hotels previously leased to Wyndham International, Inc., or Wyndham, in the second quarter of 2003; and (vi) the general increase in hotel revenues due to the improving lodging industry conditions during 2004.

Pro forma annual hotel operating revenues of our 177 managed hotels, which includes revenues for periods prior to our ownership of some of these hotels and for periods when some of the hotels were leased from us by third parties, were $510,124 in 2004, an increase of 1.1% from pro forma annual hotel operating revenues of $504,714 in 2003. The increase in revenues is attributable primarily to the strengthening lodging market that resulted in improved occupancy and average daily room rate at many of our hotels offset by lower revenues at our former Summerfield Suites by Wyndham® and Wyndham® hotels, which were in the process of being rebranded during 2004 as Staybridge Suites® and Prime Hotels℠, respectively.

Pro forma annual hotel operating expenses for our managed hotels, which includes expenses for periods prior to our ownership of some of these hotels and for periods when some of the hotels were leased from us by third parties, were $351,221 in 2004, a decrease of 0.8% from pro forma annual hotel operating expenses of $354,033 in 2003. This decrease is due primarily to lower franchise related costs at certain of our rebranded hotels partially offset by increased labor costs.

Certain of our managed hotels had net operating results that were $10,595 and $6,922 less than the minimum returns due to us in 2004 and 2003, respectively. These amounts have been reflected in our consolidated statement of income as a net reduction to hotel operating expenses in each year because the minimum returns were funded by our managers.

The decrease in minimum rental income is primarily a result of the elimination of $94,313 of minimum rent for 128 of our hotels which were previously leased to third parties but are now managed for our account. This decrease was partially offset by increased minimum rent resulting from our funding of improvements at certain of our leased hotels in 2004 and 2003. Percentage rental income increased as a result of higher sales at our leased hotels in 2004 versus 2003.

The increase in FF&E reserve income is primarily due to increased levels of hotel sales in 2004 versus 2003 at certain of our recently modernized Courtyard by Marriott® hotels. This increase was partially offset by six hotels which were changed from leased to managed hotels during 2003 and seven additional hotels which were changed from leased to managed hotels in June 2004.

The decrease in interest income is due to a lower average cash balance, offset to some extent by a higher average interest rate during 2004 than in 2003.

We recorded a $107,516 gain on lease terminations in 2003 as a result of the termination of our leases with Wyndham and Candlewood.

The increase in interest expense is primarily due to higher average borrowings and a higher weighted average interest rate during 2004.

The increase in depreciation and amortization is due principally to the depreciation of 35 hotels acquired during 2003 and the impact of the purchases in 2003 and 2004 of depreciable assets with funds from FF&E reserve accounts owned by us. This is offset to some extent by the sale of one hotel in 2004 and the retirement of fully depreciated assets of $50,619 and $36,418 during 2004 and 2003, respectively.

The increase to general and administrative expense is due principally to the impact of additional hotel investments during 2004 and 2003 and diligence costs of approximately $500 incurred in 2004 in connection with a failed potential acquisition.

In 2003, we recorded an expense of $2,582 to write off the unamortized deferred financing costs associated with $150,000 of senior notes we redeemed.

We recorded a $203 gain on the sale of a Summerfield Suites by Wyndham® hotel located in Buckhead, Georgia in the 2004 second quarter.

Our 2004 income available to common shareholders was reduced by $2,793 as a result of our redemption of our Series A preferred shares, which amount reflects the excess of the redemption payments over the carrying value of these preferred shares before their redemption.

The decreases in net income, net income available for common shareholders and net income available for common shareholders per common share were primarily due to the gain on lease terminations recorded in 2003 and the other investment and operating activities discussed above. The percentage decrease in net income available for common shareholders per common share was higher due to our sale of an aggregate of 4.6 million common shares in February and March 2004.

LIQUIDITY AND CAPITAL RESOURCES
(dollar amounts in thousands, except per share amounts)

Our Operators and Tenants

As of March 10, 2006, all 307 of our hotels are operated under management agreements or leases with unrelated third party hotel operating companies. All costs of operating and maintaining our hotels are paid by the third party hotel managers as agents for us or by third party tenants for their own account. These third parties generally derive their funding for hotel operating expenses, FF&E reserves, and returns and rents due us from hotel operating revenues and, to the extent that these parties fund our minimum returns and minimum rents under their guarantees to us, from their separate resources.

We define coverage for each of our combination hotel management agreements or leases as total hotel sales minus all expenses which are not subordinated to the minimum returns and minimum rents due to us and the required FF&E reserve contributions, divided by the aggregate minimum payments to us. More detail regarding coverage, guarantees and other security features of our operating agreements is presented in the table on pages 12 and 13. Of our ten operating agreements in place during 2005, seven hotel combinations, representing 237 hotels, generated coverage of at least 1.0x during 2005. The remaining three combinations, representing 61 hotels, generated coverages of 0.90x to 0.99x in 2005.

One hundred eighty-two (182) hotels, 60% of our total investments at cost, in seven combinations are operated under management agreements or leases which are subject to full or limited guarantees. These guarantees may provide us with continued payments if the total hotel sales less total hotel expenses and required FF&E reserve payments fail to equal or exceed guaranteed amounts due to us. Our managers and tenants or their affiliates may also supplement cash flow from our hotels in order to make payments to us and preserve their rights to continue operating our hotels. Guarantee or supplemental payments to us, if any, made under any of our management agreements or leases, do not subject us to repayment obligations but, under some of our agreements, these guarantee or supplemental payments may be recovered by the manager or tenant from the future cash flows from our hotels after our future minimum returns and minimum rents are paid.

As of March 10, 2006, all payments due, including those payments due under management agreements or leases whose hotels generated less than 1.0x coverage during 2005, are current. However, the effectiveness of our various security features to provide uninterrupted payments to us is not assured. If any of our hotel operators, tenants or guarantors default in their payment obligations to us, our revenues and cash flows may decline.

Our Operating Liquidity and Capital Resources

Our principal source of funds for current expenses and distributions to shareholders are minimum returns from our managed hotels and minimum rents from our leased properties. We receive minimum returns and minimum rents from our managers and tenants monthly. We receive additional returns, percentage returns and rents and our share of the operating profits of our managed hotels after payment of all management fees and other deductions either monthly or quarterly. This flow of funds has historically been sufficient for us to pay our operating expenses, interest and distributions to shareholders. We believe that our operating cash flow will be sufficient to meet our operating expenses, interest and distribution payments for the foreseeable future.

We maintain our status as a REIT under the Internal Revenue Code by meeting certain requirements. As a REIT, we do not expect to pay federal income taxes on the majority of our income. In 1999, federal legislation known as the REIT Modernization Act, or the RMA, was enacted and became effective on January 1, 2001. The RMA, among other things, allows a REIT to lease hotels to a TRS if the hotel is managed by an independent third party. The income realized by our TRS in excess of the rent it pays to us is subject to income tax at corporate tax rates. As, and if, the financial performance of the hotels operated for the account of our TRS improves, these taxes may become material, but the anticipated taxes are not material to our consolidated financial results at this time.

Our Investment and Financing Liquidity and Capital Resources

Various percentages of total sales at most of our hotels are escrowed as FF&E reserves to fund future capital improvements at our hotels. As of December 31, 2005, there was approximately $30,115 on deposit in these escrow accounts, of which $29,063 was held directly by us and reflected on our balance sheet as restricted cash. The remaining $1,052 is held in an account owned by one of our tenants and is not reflected on our balance sheet; but we have security and remainder interests in the account owned by this tenant. During 2005, $35,115 was contributed to these accounts by our managers and tenants. Our operating agreements generally provide that, if necessary, we will provide our managers and tenants FF&E funding in excess of escrowed reserves. To the extent we make such fundings, our annual minimum returns or minimum rent generally increases by a percentage of the amount we fund. During

2005, we made $45,390 of such fundings. During 2005, $89,335 was spent to renovate and refurbish our hotels.

During 2005, we funded $13,726 for improvements to our hotel portfolios managed by Marriott International, Inc., or Marriott, using cash on hand and borrowings under our revolving credit facility. We expect to fund $26,669 for improvements to four of our Marriott hotel portfolios in 2006 with funds from existing cash balances or borrowings under our credit facility. Our minimum annual rent for these hotels is increased by approximately 10% of the amounts we fund, which amounts are in addition to recurring FF&E reserve funding from hotel operations.

Pursuant to our agreement with InterContinental for management of 15 Staybridge Suites® hotels (part of a 30 hotel combination), we agreed to fund $20,000 for rebranding costs and other capital improvements. As part of this agreement, InterContinental agreed to provide us with a $20,000 deposit to secure its obligations under the management agreement that we will not escrow. During the first quarter of 2005, the final $10,000 of these fundings occurred. Our funding to InterContinental and its funding of the deposit to us were simultaneous.

Pursuant to the agreement we entered into with Hyatt in April 2005 for management of 24 hotels, we agreed to fund $8,000, to Hyatt for rebranding of the hotels to the new Hyatt Place™ brand and other capital improvements. As of December 31, 2005, $4,845 has been funded. We have also agreed to provide additional funding to Hyatt for the rebranding of the hotels. To the extent our fundings exceed $8,000 the minimum return payable by Hyatt to us will increase as these funds are advanced. We expect to make additional fundings of approximately $35,270 in 2006 using cash on hand or borrowings under our revolving credit facility.

Pursuant to the agreement we entered into with Carlson in April 2005 for management of 12 hotels, we agreed to fund $12,000 for rebranding costs and other capital improvements. We have also agreed to provide additional funding to Carlson for rebranding and refurbishment of the hotels. To the extent our fundings exceed $12,000, the minimum return payable by Carlson to us will increase as these funds are advanced. As of December 31, 2005, $21,664 has been funded. We expect to make additional fundings totaling $15,385 through June 2006 with funds from existing cash balances or borrowings under our credit facility.

In order to fund acquisitions and to meet cash needs that may result from timing differences between our receipt of returns and rents and our desire or need to make distributions or pay operating expenses, we maintain a revolving credit facility with a group of commercial banks. On May 23, 2005, we amended and restated our unsecured revolving credit facility to increase the maximum borrowing amount from $350,000 to $750,000 and to extend the maturity date to June 2009. Our amended and restated credit facility includes provisions whereby the maturity date may be extended by one year upon payment of an additional fee and the maximum borrowing may be expanded to up to $1,500,000 in certain circumstances. Several additional amendments were made to the terms of our credit facility: the interest rate on drawings under the credit facility was reduced from LIBOR plus 135 basis points to LIBOR plus 80 basis points, subject to adjustments based on changes to our credit ratings; and certain financial and other covenants in the credit facility were also amended to reflect current market conditions. In October 2005, the credit ratings of our senior unsecured debt obligations were raised to "BBB" and "Baa2" from "BBB-" and "Baa3" by Standard & Poor's Rating Services and Moody's Investors Service, respectively. The interest rate on drawings under the credit facility was reduced to LIBOR plus 65 basis points as a result of these ratings increases. Under this credit facility funds may be drawn, repaid and redrawn until maturity, and no principal repayment is due until maturity. As of December 31, 2005, we had $35,000 outstanding on our credit facility.

At December 31, 2005, we had $18,568 of cash and cash equivalents and $715,000 available on our revolving credit facility. We expect to use existing cash balances, borrowings under our credit facility or other lines of credit and net proceeds of offerings of equity or debt securities to fund future property acquisitions.

As described above, on December 17, 2004, we announced our agreement to purchase 13 hotels from InterContinental for $450,000. We acquired 12 of the hotels on February 16, 2005 and the remaining hotel on May 31, 2005, for $425,000 using proceeds from the senior notes issuance described below and borrowings under our revolving credit facility. The $450,000 purchase price includes $25,000 which we have agreed to pay during the three years following closing in connection with certain improvements to the hotels. We paid $10,000 of this amount in December 2005 and expect to pay the remaining balance in 2006 and 2007 with funds from existing cash balances or borrowings under our credit facility.

On January 6, 2006, we acquired the Harbor Court Complex in Baltimore, Maryland for $78,000 using cash on hand and borrowings under our revolving credit facility.

On January 25, 2006, we announced our agreement to purchase nine hotels for $196,200. As of March 10, 2006, we have acquired eight of these nine hotels for approximately $166,200 using borrowings under our revolving credit facility. We expect to complete the purchase of the final hotel for approximately $30,000 later in 2006, using existing cash balances or borrowings under our revolving credit facility.

Our term debt maturities (other than our revolving credit facility) are as follows: $150,000 in 2008; $50,000 in 2010; $125,000 in 2012, $300,000 in 2013 and $300,000 in 2015. As of December 31, 2005, we had one mortgage note we assumed in connection with our acquisition of a hotel with a principal balance of $3,766. This mortgage note requires monthly payments of principal and interest of $32 and is expected to have a principal balance of $3,326 at maturity in 2011. The mortgage note became prepayable at a premium to face value on September 1, 2005. None of our other debt obligations require principal or sinking fund payments prior to their maturity date.

On March 1, 2005, June 1, 2005, September 1, 2005 and December 1, 2005, we declared distributions of $0.5546875 per Series B preferred share with respect to each of the first, second, third and fourth quarters of 2005, respectively, and paid them to shareholders on April 15, 2005, July 15, 2005, October 17, 2005 and January 17, 2006. On April 7, 2005 and July 7, 2005, we declared distributions of $0.72 per common share with respect to each of the first and second quarters of 2005, respectively, and on October 6, 2005 and January 12, 2006, we declared distributions of $0.73 per common share with respect of each of the third and fourth quarters of 2005, respectively, and paid them to shareholders on May 19, 2005, August 18, 2005, November 17, 2005 and February 16, 2006. All of these distributions were funded using cash on hand and borrowings under our revolving credit facility.

On February 15, 2005, we issued $300,000 of 5.125% senior notes due 2015. Net proceeds after underwriting and other offering expenses were approximately $297,192. As described above, these proceeds were used to partially fund the acquisition of 13 hotels from InterContinental in February and May 2005.

On June 5, 2005, we sold 4,500,000 of our common shares at a price of $44.39 per share in a public offering. On June 24, 2005, we sold an additional 200,000 common shares at a price of $44.39 pursuant to an over allotment option granted to the underwriters. Net proceeds from both these sales, after underwriting and other offering expenses, were $199,233. We used these proceeds to reduce borrowings outstanding under our revolving credit facility.

When amounts are outstanding on our revolving credit facility and, as the maturity dates of our credit facility and term debt approach over the longer term, we will explore alternatives for the repayment of amounts due. Such alternatives in the short term and long term may include incurring additional long term debt and issuing new equity securities. As of December 31, 2005, we had $1,578,439 available on our shelf registration. An effective shelf registration allows us to issue public securities on an expedited basis, but it does not assure that there will be buyers for those securities. Although there can be no assurance that we will consummate any debt or equity security offerings or other financings, we believe we will have access to various types of financing, including investment grade debt or equity securities offerings, with which to finance future acquisitions and to pay our debt and other obligations.

As of December 31, 2005, our contractual obligations were as follows:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	$ 963,766	$ 66	$ 150,148	$ 85,176	$ 728,376
Purchase Obligation (1)	15,000	10,000	5,000	–	–
Ground Lease Obligations (2)	73,709	1,994	3,988	3,568	64,159
Capital improvements (3)	77,324	77,324	–	–	–
Total	$ 1,129,799	$ 89,384	$ 159,136	$ 88,744	$ 792,535

(1) On December 17, 2004, we announced our agreement to purchase 13 hotels from InterContinental. This remaining balance of our negotiated purchase price is to fund capital improvements over the course of the next two years.

(2) Thirteen of our hotels are on leased land. In each case the ground lessors are unrelated to us. Generally, payments of ground lease obligations are made by our managers or tenants. However, if a manager or tenant fails to perform obligations under a ground lease or elects not to renew any ground lease, we might have to perform obligations under the ground lease or renew the ground lease in order to protect our investment in the affected hotel.

(3) Represents amounts we expect to fund in addition to recurring FF&E reserve funding from hotel operations.

As of December 31, 2005, we had no off-balance sheet arrangements, commercial paper, derivatives, swaps, hedges, guarantees, joint ventures or partnerships. As of December 31, 2005, our secured debt obligations were limited to one mortgage note of $3,766 secured by a single property. None of our debt documentation requires us to provide collateral security in the event of a ratings downgrade.

Debt Covenants

Our debt obligations at December 31, 2005, were our revolving credit facility, our $925,000 of publicly issued term debt and our $3,766 mortgage note. Our public debt is governed by an indenture. This indenture and related supplements and our credit facility agreement contain a number of financial ratio covenants which generally restrict our ability to incur debts, including debts secured by mortgages on our properties in excess of calculated amounts, require us to maintain a minimum net worth, restrict our ability to make distributions under certain circumstances and require us to maintain other ratios. As of December 31, 2005, we were in compliance with all of our covenants under our indenture and its supplements and our credit facility agreement.

Neither our indenture and its supplements nor our bank credit facility contain provisions for acceleration which could be triggered by our debt ratings. However, under our credit facility agreement, our senior debt rating is used to determine the fees and interest rate applied to borrowings.

Our public debt indenture and its supplements contain cross default provisions to any other debts of $20,000 or more. Similarly, a default on our public debt indenture would be a default on our credit facility.

Related Party Transactions

RMR originates and presents investment opportunities to our board and provides administrative services to us under an agreement. RMR is compensated at an annual rate equal to 0.7% of our average real estate investments, as defined, up to the first $250,000 and 0.5% thereafter, plus an incentive fee based upon increases in cash available for distribution per share, as defined. The incentive fee payable to RMR is paid in common shares. Aggregate fees earned by RMR during 2005 for services were $19,127, which includes an incentive fee of $1,397 which we plan to pay later in 2006, through the issuance of 33,973 of our common shares. RMR also provides the internal audit function for us and for other publicly traded companies to which it provides management or other services. We pay a pro rata share of RMR's costs in providing that function. Our audit committee composed only of independent trustees approves the identity and salary of the individual serving as our director of internal audit, as well as the pro rata share of the costs which we pay. As described above, on January 6, 2006, we entered into a management agreement with RMR to operate the office building component of our Harbor Court Complex. Fees paid to RMR under this management agreement are based on a formula, generally 3% of gross collected rents as a property management fee and 5% of gross construction costs as a construction management fee. Prior to October 1, 2005, RMR was beneficially owned by Messrs. Barry Portnoy and Gerard Martin, each a managing trustee and a member of our board of trustees. Effective October 1, 2005, Messrs. Barry Portnoy and his son, Adam Portnoy, acquired Mr. Martin's beneficial ownership in RMR. Mr. Adam Portnoy is an executive officer of RMR and the Executive Vice President of HRPT. Mr. Martin remains a director of

RMR and, together with Mr. Barry Portnoy, continues to serve as one of our managing trustees. All transactions between us and RMR are approved by our independent trustees.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and assessments are consistently applied and produce financial information that fairly presents our results of operations. Our four most critical accounting policies concern our investments in hotels and are as follows:

Classification of Leases. Certain of our hotel investments are leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate its classification as either a capital lease or operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a leased hotel, appropriate present value discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

Allocation of Purchase Price and Recognition of Depreciation Expense. The acquisition cost of each hotel investment is allocated to various property components such as land, buildings and furniture, and each component generally has a different useful life. For hotels acquired subsequent to June 1, 2001, the effective date of Statement of Financial Accounting Standards No. 141, "Business Combinations", we allocate the value of real estate acquired among building, land, furniture, fixtures and equipment, and, if applicable, the value of in-place leases, the fair market value of above or below market leases and customer relationships. Acquisition cost allocations and the determination of the useful lives are based on our estimates or, under some circumstances, studies commissioned from independent experts. We compute related depreciation expense using the straight line method over estimated useful lives of up to 40 years for buildings and improvements, and up to 12 years for personal property. The value of intangible assets is amortized over the term of the respective lease or the affected contract. The allocated cost of land is not depreciated. Inappropriate allocation of acquisition costs or incorrect estimates of useful lives could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods required by accounting principles generally accepted in the United States.

Impairment of Assets. We periodically evaluate our hotel investments for impairment indicators. These indicators may include weak or declining operating profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life or market or industry changes that could permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the related investment by comparing it to the expected future undiscounted cash flows to be generated from that investment. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to its estimated fair value. Estimated fair value is determined through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation techniques. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future operating profitability, market or industry factors differ from our expectations we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

Variable Interest Entities. In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities", or FIN 46, that was effective for all enterprises with variable interest entities created after January 31, 2003. In December 2003, FASB issued a revised FIN 46, which provided for the deferral of the effective date of the interpretation to January 1, 2004, for variable interest entities created prior to January 31, 2003. Under FIN 46, if an entity is determined to be a variable interest entity, it must be consolidated by the primary beneficiary. The primary beneficiary is the enterprise that absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. Generally, expected losses and expected residual returns are the expected negative and positive variability, respectively, in the fair value of the variable interest entities' net assets. When our TRS enters a new operating agreement or materially modifies an existing operating agreement we are required to assess if we are or continue to be the primary beneficiary. This assessment requires us to make estimates of the future cash flows of our TRS. Incorrect assumptions or estimates of, among other things, occupancy, average daily room rate and operating expenses of our hotels may result in an inaccurate determination of the primary beneficiary. The adoption of FIN 46 had no effect on our financial statements.

These policies involve significant judgments based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual values, the ability of our tenants and operators to perform their obligations to us, and the current and likely future operating and competitive environments in which our hotels operate. In the future we may need to revise our assessments to incorporate information which is not now known, and such revisions could increase or decrease our depreciation expense related to hotels we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

SEASONALITY

Our hotels have historically experienced seasonal differences typical of the U.S. hotel industry with higher revenues in the second and third quarters of calendar years compared with the first and fourth quarters. This seasonality is not expected to cause material fluctuations in our income or cash flow because our contractual management agreements and leases require our managers and tenants to make the substantial portion of our return payments and rents to us in equal amounts throughout a year. Seasonality may affect our hotel operating revenues, but we do not expect seasonal variations to have a material impact upon our financial results of operations or upon our managers' or tenants' ability to meet their contractual obligations to us.

IMPACT OF INFLATION

Inflation might have both positive and negative impacts upon us. Inflation might cause the value of our real estate investments to increase. In an inflationary environment, the percentage returns and rents which we receive based upon a percentage of gross hotel revenues should increase. Offsetting these benefits, inflation might cause our costs of equity and debt capital and other operating costs to increase. An increase in our capital costs or in our operating costs will result in decreased earnings unless it is offset by increased revenues. In periods of rapid inflation, our managers' or tenants' operating costs may increase faster than revenues and this fact may have an adverse impact upon us if the operating income from our properties becomes insufficient to pay our returns or rents. To mitigate the adverse impact of increased operating costs at our properties, all of our operating agreements contain security features, such as security deposits, and in certain instances, guarantees of our returns or rents. To mitigate the adverse impact of increased costs of debt capital in the event of material inflation, we may enter into interest rate hedge arrangements in the future. The decision to enter into these agreements will be based on the amount of our floating rate debt outstanding, our belief that material interest rate increases are likely to occur and upon requirements of our borrowing arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

(dollar amounts in thousands)

We are exposed to risks associated with market changes in interest rates. We manage our exposure to this market risk by monitoring available financing alternatives. Our strategy to manage exposure to changes in interest rates is unchanged from December 31, 2004. Other than as described below, we do not foresee any significant changes in our exposure to fluctuations in interest rates or in how we manage this exposure in the near future.

As of December 31, 2005, our outstanding publicly traded debt consisted of five issues of fixed rate, senior unsecured notes:

Principal Balance	Annual Interest Rate	Annual Interest Expense	Maturity	Interest Payments Due
$ 150,000	7.000%	$ 10,500	2008	Semi-Annually
50,000	9.125%	4,563	2010	Semi-Annually
125,000	6.850%	8,563	2012	Semi-Annually
300,000	6.750%	20,250	2013	Semi-Annually
300,000	5.125%	15,375	2015	Semi-Annually
$ 925,000		$ 59,251		

No principal repayments are due under these notes until maturity. Because these notes bear interest at fixed rates, changes in market interest rates during the term of this debt will not affect our operating results. If at maturity these notes were refinanced at interest rates which are 10% higher than shown above, our per annum interest cost would increase by approximately $5,925. Changes in market interest rates also affect the fair value of our debt obligations; increases in market interest rates decrease the fair value of our fixed rate debt while decreases in market interest rates increase the fair value of our fixed rate debt. Based on the balances outstanding at December 31, 2005, and discounted cash flow analyses, a hypothetical immediate 10% change in interest rates would change the fair value of our fixed rate debt obligations by approximately $27,747.

Each of our fixed rate unsecured debt arrangements allows us to make repayments earlier than the stated maturity date. We are generally allowed to make prepayments only at face value plus a premium equal to a make-whole amount, as defined, which is generally designed to preserve a stated yield to the note holder. These prepayment rights may afford us the opportunity to mitigate the risk of refinancing at maturity at higher rates by refinancing prior to maturity.

We have one mortgage payable secured by a hotel in Wichita, Kansas, with a fixed rate of 8.3% that matures on July 1, 2011. This note requires principal and interest payments through maturity pursuant to an amortization schedule and contains a provision that allows us to make repayment at a premium to face value.

Our revolving credit facility bears interest at floating rates and matures in June 2009. We can extend the maturity for one year for a fee. At December 31, 2005, we had $35,000 outstanding and $715,000 available for drawing under our revolving credit facility. Repayments under our revolving credit facility may be made at any time without penalty. We borrow in U.S. dollars and borrowings under our revolving bank credit facility are subject to interest at LIBOR plus a premium. Accordingly, we are vulnerable to changes in U.S. dollar based short term interest rates, specifically LIBOR. A change in interest rates would not affect the value of this floating rate debt but would affect our operating results. For example, the interest rate payable on our outstanding indebtedness of $35,000 at December 31, 2005, was 5.0% per annum. The following table presents the impact a 10% change in interest rates would have on floating rate interest expense as of December 31, 2005:

	Impact of Changes in Interest Rates		
	Interest Rate Per Year	Outstanding Debt	Total Interest Expense Per Year
At December 31, 2005	5.0%	$ 35,000	$ 1,750
10% reduction	4.5%	$ 35,000	$ 1,575
10% increase	5.5%	$ 35,000	$ 1,925

The foregoing table shows the impact of an immediate change in floating interest rates. If interest rates were to change gradually over time, the impact would be spread over time. Our exposure to fluctuations in floating interest rates will increase or decrease in the future with increases or decreases in the outstanding amount under our revolving bank credit facility or other floating rate debt.

PROPERTY MANAGEMENT AGREEMENTS, LEASES AND OPERATING STATISTICS

As of March 10, 2006, we owned 307 hotels which are grouped into eleven combinations and managed by or leased to separate affiliates of hotel operating companies including InterContinental, Marriott, Host Marriott Corporation, or Host, Barcelo Crestline Corporation, or Barcelo Crestline, Hyatt, Carlson and Homestead.

The tables on the following pages summarize the key terms of our leases and management agreements as of March 10, 2006, and include statistics reported to us or derived from information reported to us by our managers and tenants. These statistics include occupancy, average daily rate, or ADR, revenue per day per available room, or RevPAR, and coverage of our minimum returns or minimum rents. We consider these statistics and the management agreement or lease security features also presented in the tables on the following pages, to be important measures of our managers' and tenants' success in operating our hotels and their ability to continue to pay us. However, none of this third party reported information is a direct measure of our financial performance and none of it has been independently verified by us.

Hotel Brand	Courtyard by Marriott®	Residence Inn by Marriott®	Marriott®/ Residence Inn by Marriott®/Courtyard by Marriott®/ TownePlace Suites by Marriott®/SpringHill Suites by Marriott®	Residence Inn by Marriott®/ Courtyard by Marriott®/TownePlace Suites by Marriott®/ SpringHill Suites by Marriott®	Homestead Studio Suites®	Staybridge Suites®
Number of Hotels	53	18	35	19	18	30
Number of Rooms/Suites	7,610	2,178	5,382	2,756	2,399	3,694
Number of States	24	14	15	14	5	16
Tenant	Subsidiary of Host Subleased to Subsidiary of Barcelo Crestline.	Subsidiary of Host Subleased to Subsidiary of Barcelo Crestline.	Our TRS.	Subsidiary of Barcelo Crestline.	Subsidiary of Homestead.	Our TRS.
Manager	Subsidiary of Marriott.	Subsidiary of Marriott.	Subsidiaries of Marriott.	Subsidiaries of Marriott.	Subsidiary of Homestead.	Subsidiary of InterContinental
Investment (000s)(1)	$ 560,635	$ 187,236	$ 462,332	$ 274,222	$ 145,000	$ 415,708
Security Deposit (000s)	$ 50,540	$ 17,220	$ 36,204	$ 28,508	$ 15,960	$ 36,872(8)
End of Current Term	2012	2010	2019	2015	2015	2023
Renewal Options(2)	3 for 12 years each.	1 for 10 years, 2 for 15 years each.	2 for 15 years each.	2 for 10 years each.	2 for 15 years each.	2 for 12.5 years each.
Annual Minimum Return/ Minimum Rent (000s)(3)	$ 55,951	$ 18,705	$ 47,986	$ 28,508	$ 15,960	$ 36,097
Additional Return	–	–	$ 1,173(4)	–	–	–
Percentage Return/Rent(5)	5.0% of revenues above 1994/95 revenues.	7.5% of revenues above 1996 revenues.	7.0% of revenues above 2000/01 revenues.	7.0% of revenues above1999/2000 revenues.	10.0% of revenues above 1999/2000 revenues.	7.5% of revenues above 2004/06 revenues.
Return/Rent Coverage(6)(7):						
Year ended 12/31/05	1.41x	1.13x	1.03x	0.99x	1.46x	0.91x
Year ended 12/31/04	1.29x	1.00x	0.87x	0.85x	1.21x	0.77x
Other Security Features	HPT controlled lockbox with minimum balance maintenance requirement; subtenant and subtenant parent minimum net worth requirement.	HPT controlled lockbox with minimum balance maintenance requirement; subtenant and subtenant parent minimum net worth requirement.	–	Tenant minimum net worth requirement.	Homestead parent guarantee and $15,960 letter of credit.	Limited guarantee provided by InterContinental.

(1) Amounts exclude expenditures made from FF&E reserves funded from hotel operations, but includes amounts funded by us separately from hotel operations.
(2) Renewal options may be exercised by the manager or tenant for all, but not less than all, of the hotels within each combination of hotels.
(3) Each management agreement or lease provides for payment to us of an annual minimum return or minimum rent, respectively. Management fees are generally subordinated to these minimum payment amounts and certain minimum payments are subject to full or limited guarantees.
(4) This agreement provides for annual additional return payment to us of $1,173 to the extent of available cash flow after payment of operating costs, funding of the FF&E reserve and payment of our minimum return and percentage return.
(5) Certain of our management agreements and leases provide for payment to us of a percentage of increases in total hotel sales over base year levels. Percentage returns under our management agreements are payable to us only to the extent of available cash flow, as defined in the agreements. The payment of percentage rent under our leases is not subject to available cash flow.
(6) We define coverage as total hotel sales minus all expenses which are not subordinated to minimum payments to us and the required FF&E reserve contributions (which data is provided to us by our operators or tenants), divided by the minimum returns or minimum rent payments due to us.
(7) For the hotels managed by Marriott, the data presented is for the comparable fiscal years ended December 30, 2005, and December 31, 2004.
(8) The single $36,872 deposit secures InterContinental's obligations under the Staybridge Suites® portfolio, the InterContinental® / Crowne Plaza® / Holiday Inn® / Staybridge Suites® portfolio and the Crowne Plaza® / Holiday Inn® / Staybridge Suites® portfolio.

Hotel Brand	Candlewood Suites®	InterContinental®/ Crowne Plaza®/ Holiday Inn®/ Staybridge Suites®(1)	Crowne Plaza®/ Holiday Inn®/ Staybridge Suites®(2)	AmeriSuites®	Radisson® Hotels & Resorts/Park Plaza® Hotels & Resorts/Country Inns & Suites by Carlson®	Total/Range/ Average (all investments)(1)(2)
Number of Hotels	76	14	8	24	12	307
Number of Rooms/Suites	9,220	4,141	2,188	2,929	2,262	44,759
Number of States	29	7 plus Ontario and Puerto Rico	3	14	7	38 plus Ontario and Puerto Rico
Tenant	Our TRS.	Our TRS and a subsidiary of InterContinental.	Our TRS.	Our TRS.	Our TRS.	
Manager	Subsidiary of InterContinental.	Subsidiaries of InterContinental.	Subsidiaries of InterContinental.	Subsidiary of Hyatt.	Subsidiary of Carlson.	
Investment (000s)(3)	$ 590,250	$ 503,000	$ 166,200	$ 243,350	$ 202,735	$ 3,750,668
Security Deposit (000s)	–	$ 36,872(4)	$ 36,872(4)	–	–	$ 185,304
End of Current Term	2028	2029	2030	2030	2030	2010-2030 (average 16 years)
Renewal Options(5)	2 for 15 years each.	2 for 15 years each.	2 for 15 years each.	2 for 15 years each.	2 for 15 years each.	
Annual Minimum Return/ Minimum Rent (000s)(6)	$ 50,000	$ 42,488	$ 13,296	$ 17,000	$ 10,732	$ 336,723
Additional Return	$ 10,000(7)	$ 3,458(8)	$ 1,269(9)	50% of cash in excess of minimum return.(10)	50% of cash in excess of minimum return.(10)	$ 15,900
Percentage Return/Rent(11)	7.5% of revenues above 2006 revenues.	7.5% of revenues above 2006 revenues.	7.5% of revenues above 2006 revenues.	–	–	
Return/Rent Coverage(12):						
Year ended 12/31/05	1.20x	1.29x	1.34x	1.03x	0.90x	0.90x - 1.46x
Year ended 12/31/04	1.00x	0.95x	1.06x	0.91x	1.49x	0.77x - 1.49x
Other Security Features	Limited guarantee provided by InterContinental.	Limited guarantee provided by InterContinental.	Limited guarantees provided by InterContinental.	Limited guarantee provided by Hyatt.	Limited guarantee provided by Carlson.	

(1) Amounts give effect to the acquisition of a hotel on January 6, 2006.

(2) Amounts give effect to the acquisition of eight hotels with an effective date of January 20, 2006. Amounts exclude one additional Holiday Inn SunSpree Resort® in Montego Bay, Jamaica with 524 rooms, which we expect to purchase from InterContinental later in 2006 for $30,000.

(3) Amounts exclude expenditures made from FF&E reserves funded from hotel operations, but includes amounts funded by us separately from hotel operations.

(4) The single $36,872 deposit secures InterContinental's obligations under the Staybridge Suites® portfolio, the InterContinental® / Crowne Plaza® / Holiday Inn® /Staybridge Suites® portfolio and the Crowne Plaza® / Holiday Inn® / Staybridge Suites® portfolio.

(5) Renewal options may be exercised by the manager or tenant for all, but not less than all, of the hotels within each combination of hotels.

(6) Each management agreement or lease provides for payment to us of an annual minimum return or minimum rent, respectively. Management fees are generally subordinated to these minimum payment amounts and certain minimum payments are subject to full or limited guarantees.

(7) This agreement provides for annual additional return payment to us of $10,000 to the extent of available cash flow after payment of operating costs, funding of the FF&E reserve, payment of our minimum return and payment of certain management fees.

(8) This agreement provides for annual additional return payment to us of $3,458 to the extent of available cash flow after payment of operating costs, funding of the FF&E reserve, payment of our minimum return and payment of certain management fees.

(9) This agreement provides for annual additional return payment to us of $1,269 to the extent of available cash flow after payment of operating costs, funding of the FF&E reserve, payment of our minimum return and payment of certain management fees.

(10) These agreements provide for payment to us of 50% of available cash flow after payment of operating costs, funding the FF&E reserve, payment of our minimum return and reimbursement to the managers of working capital and guaranty advances, if any.

(11) Certain of our management agreements and leases provides for payment to us of a percentage of increases in total hotel sales over base year levels. Percentage returns under our management agreements are payable to us only to the extent of available cash flow, as defined in the agreements. The payment of percentage rent under our leases is not subject to available cash flow.

(12) We define coverage as total hotel sales minus all expenses which are not subordinated to minimum payments to us and the required FF&E reserve contributions (which data is provided to us by our operators or tenants), divided by the minimum return or minimum rent payments due to us. The return coverage amounts for certain of our management agreements have been revised for all periods presented to include only the minimum returns. The calculation in prior periods included additional return amounts for certain of our management agreements. For some combinations, amounts have been calculated using data for periods prior to our ownership of certain hotels and prior to commencement of operating agreements.

The following tables summarize the operating statistics, including occupancy, ADR and RevPAR, reported to us by our hotel operators by management agreement or lease for the periods indicated for the 298 hotels we owned as of December 31, 2005:

Management Agreement/Lease	No. of Hotels	No. of Rooms/Suites	2005[(1)]	2004[(1)]	Change
ADR					
Host (no. 1)	53	7,610	$ 108.15	$ 100.38	7.7%
Host (no. 2)	18	2,178	101.36	94.86	6.9%
Marriott	35	5,382	101.33	94.72	7.0%
Barcelo Crestline	19	2,756	102.64	92.26	11.3%
InterContinental (no. 1)[(2)]	30	3,694	96.67	89.65	7.8%
InterContinental (no. 2)	76	9,220	61.03	55.97	9.0%
InterContinental (no. 3)[(30]	13	3,946	117.38	110.92	5.8%
Hyatt [(4)]	24	2,929	75.45	69.07	9.2%
Carlson[(3) (4) (5)]	12	2,262	81.64	80.62	1.3%
Homestead	18	2,399	56.44	50.14	12.6%
Total/Average	298	42,376	$ 89.62	$ 83.23	7.7%
OCCUPANCY					
Host (no. 1)	53	7,610	70.9%	71.3%	(0.4 pt)
Host (no. 2)	18	2,178	81.3%	79.3%	2.0 pt
Marriott	35	5,382	77.5%	76.3%	1.2 pt
Barcelo Crestline	19	2,756	72.8%	73.8%	(1.0 pt)
InterContinental (no. 1)[(2)]	30	3,694	77.5%	75.3%	2.2 pt
InterContinental (no. 2)	76	9,220	75.0%	71.2%	3.8 pt
InterContinental (no. 3) [(3)]	13	3,946	74.5%	70.5%	4.0 pt
Hyatt [(4)]	24	2,929	67.2%	65.3%	1.9 pt
Carlson[(3)(4)(5)]	12	2,262	49.6%	57.8%	(8.2 pt)
Homestead	18	2,399	77.3%	79.2%	(1.9 pt)
Total/Average	298	42,376	73.1%	72.1%	1.0 pt
REVPAR					
Host (no. 1)	53	7,610	$ 76.68	$ 71.57	7.1%
Host (no. 2)	18	2,178	82.41	75.22	9.6%
Marriott	35	5,382	78.53	72.27	8.7%
Barcelo Crestline	19	2,756	74.72	68.09	9.7%
InterContinental (no. 1)[(2)]	30	3,694	74.92	67.51	11.0%
InterContinental (no. 2)	76	9,220	45.77	39.85	14.9%
InterContinental (no. 3) [(3)]	13	3,946	87.45	78.20	11.8%
Hyatt [(4)]	24	2,929	50.70	45.10	12.4%
Carlson[(3)(4)(5)]	12	2,262	40.49	46.60	(13.1%)
Homestead	18	2,399	43.63	39.71	9.9%
Total/Average	298	42,376	$ 65.51	$ 60.01	9.2%

(1) Includes data for the calendar year indicated, except for our Marriott branded hotels, which include data for the 52 week fiscal periods ended December 30, 2005 and December 31, 2004, respectively.

(2) Data (other than No. of Hotels and No. of Rooms/Suites) excludes one hotel which has been closed temporarily due to fire damage sustained in May 2005.

(3) Includes data for periods prior to our ownership of certain hotels.

(4) Includes data for periods hotels were not operated by the current manager.

(5) We transferred operating responsibility for our Prime Hotels[SM] to Carlson on April 4, 2005. During the second quarter of 2005, 11 of these 12 hotels were rebranded with Carlson brands and are currently undergoing renovations which have required some hotel rooms to be taken out of service. We sold the 12th Prime Hotel[SM] on September 30, 2005 and purchased an 84 room Country Inns & Suites by Carlson® hotel on November 1, 2005, as a replacement hotel to be added to this combination.

WARNING CONCERNING FORWARD LOOKING STATEMENTS

THIS ANNUAL REPORT CONTAINS STATEMENTS WHICH CONSTITUTE FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS APPEAR IN A NUMBER OF PLACES IN THIS ANNUAL REPORT AND INCLUDE STATEMENTS REGARDING OUR INTENT, BELIEF OR EXPECTATION, OR THE INTENT, BELIEF OR EXPECTATION OF OUR TRUSTEES AND OFFICERS WITH RESPECT TO OUR OPERATORS' OR TENANTS' ABILITY TO PAY RETURNS OR RENT TO US, OUR ABILITY TO PURCHASE ADDITIONAL PROPERTIES, OUR INTENT TO IMPROVE AND MODERNIZE OUR PROPERTIES, OUR ABILITY TO PAY INTEREST AND DEBT PRINCIPAL AND MAKE DISTRIBUTIONS, OUR POLICIES AND PLANS REGARDING INVESTMENTS AND FINANCINGS, OUR TAX STATUS AS A REAL ESTATE INVESTMENT TRUST, OUR ABILITY TO APPROPRIATELY BALANCE THE USE OF DEBT AND EQUITY AND TO RAISE CAPITAL AND OTHER MATTERS. HOWEVER, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN OR IMPLIED BY THE FORWARD LOOKING STATEMENTS AS A RESULT OF VARIOUS FACTORS. SUCH FACTORS INCLUDE, WITHOUT LIMITATION, THE IMPACT OF CHANGES IN THE ECONOMY AND THE CAPITAL MARKETS (INCLUDING PREVAILING INTEREST RATES) ON US AND OUR OPERATORS AND TENANTS, COMPLIANCE WITH AND CHANGES TO LAWS AND REGULATIONS AFFECTING THE REAL ESTATE AND HOTEL INDUSTRIES, CHANGES IN FINANCING TERMS AND COMPETITION WITHIN THE REAL ESTATE AND HOTEL INDUSTRIES. FOR EXAMPLE: IF HOTEL ROOM DEMAND BECOMES DEPRESSED, THE OPERATING RESULTS OF OUR HOTELS MAY DECLINE; THE FINANCIAL RESULTS OF OUR OPERATORS AND TENANTS MAY DECLINE; AND OUR OPERATORS AND TENANTS MAY BE UNABLE TO PAY OUR RETURNS OR RENTS. ALSO, WE MAY BE UNABLE TO IDENTIFY PROPERTIES WHICH WE WANT TO BUY OR TO NEGOTIATE ACCEPTABLE PURCHASE PRICES OR MANAGEMENT AGREEMENT OR LEASE TERMS FOR NEW PROPERTIES. THESE UNEXPECTED RESULTS COULD OCCUR DUE TO MANY DIFFERENT REASONS, SOME OF WHICH, SUCH AS NATURAL DISASTERS OR CHANGES IN OUR OPERATORS' OR TENANTS' COSTS OR REVENUES OR CHANGES IN CAPITAL MARKETS OR THE ECONOMY GENERALLY, ARE BEYOND OUR CONTROL. IN ADDITION, THIS ANNUAL REPORT STATES THAT OUR PURCHASE OF THE HOLIDAY INN SUNSPREE RESORT® IN JAMAICA WAS DELAYED PENDING THIRD PARTY APPROVALS. IN FACT, CIRCUMSTANCES MAY DELAY THIS PURCHASE FOR AN EXTENDED PERIOD OR PREVENT IT OCCURRING. OTHER RISKS MAY ADVERSELY IMPACT US, AS DESCRIBED MORE FULLY IN OUR ANNUAL REPORT ON FORM 10-K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, UNDER "ITEM 1A. RISK FACTORS." FORWARD LOOKING STATEMENTS ARE NOT GUARANTEED TO OCCUR AND MAY NOT OCCUR. YOU SHOULD NOT PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS. EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO RELEASE PUBLICLY THE RESULT OF ANY REVISION TO THESE FORWARD LOOKING STATEMENTS THAT MAY BE MADE TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE HEREOF OR TO REFLECT THE OCCURANCE OF UNANTICIPATED EVENTS.

Management Report on Assessment of Internal Control Over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is designed to provide reasonable assurance to our management and board of trustees regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2005, our internal control over financial reporting is effective.

Ernst & Young LLP, the independent registered public accounting firm that audited our 2005 consolidated financial statements included in this Annual Report, has issued an attestation report on our assessment of our internal control over financial reporting. Its report appears elsewhere herein.

Report of Independent Registered Public Accounting Firm

TO THE TRUSTEES AND SHAREHOLDERS OF HOSPITALITY PROPERTIES TRUST:

We have audited management's assessment, included in the accompanying Management Report on Assessment of Internal Control Over Financial Reporting, that Hospitality Properties Trust maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hospitality Properties 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Hospitality Properties Trust maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Hospitality Properties Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of Hospitality Properties Trust and our report dated March 3, 2006 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
March 3, 2006

Report of Independent Registered Public Accounting Firm

TO THE TRUSTEES AND SHAREHOLDERS OF HOSPITALITY PROPERTIES TRUST:

We have audited the accompanying consolidated balance sheets of Hospitality Properties Trust as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audit 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hospitality Properties Trust at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hospitality Properties Trust's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
March 3, 2006

Consolidated Balance Sheet

(dollars in thousands, except share data)

	As of December 31, 2005	2004
ASSETS		
Real estate properties, at cost:		
Land	$ 537,389	$ 460,748
Buildings, improvements and equipment	3,089,304	2,720,242
	3,626,693	3,180,990
Accumulated depreciation	(613,007)	(556,517)
	3,013,686	2,624,473
Cash and cash equivalents	18,568	15,894
Restricted cash (FF&E escrow)	29,063	38,511
Other assets, net	53,290	10,547
	$ 3,114,607	$ 2,689,425
LIABILITIES AND SHAREHOLDERS' EQUITY		
Revolving credit facility	$ 35,000	$ 72,000
Senior notes, net of discounts	921,606	621,679
Mortgage payable	3,766	3,826
Security deposits	185,304	175,304
Dividends payable	1,914	50,300
Accounts payable and other	108,595	77,782
Due to affiliate	2,967	2,661
Total liabilities	1,259,152	1,003,552
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest, no par value, 100,000,000 shares authorized:		
Series B preferred shares; 8 7/8% cumulative redeemable; 3,450,000 shares issued and outstanding, aggregate liquidation preference $86,250	83,306	83,306
Common shares of beneficial interest; $0.01 par value; 100,000,000 shares authorized, 71,920,578 and 67,203,228 shares issued and outstanding, respectively	719	672
Additional paid-in capital	2,059,883	1,859,936
Cumulative net income	1,211,072	1,081,169
Cumulative preferred distributions	(59,336)	(51,680)
Cumulative common distributions	(1,440,189)	(1,287,530)
Total shareholders' equity	1,855,455	1,685,873
	$ 3,114,607	$ 2,689,425

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Income

(dollars in thousands, except per share data)

	Year Ended December 31,		
	2005	2004	2003
REVENUES:			
Hotel operating revenues	$ 682,541	$ 498,122	$ 209,299
Rental income:			
Minimum rent	126,829	125,669	216,125
Percentage rent	3,902	2,803	1,128
	130,731	128,472	217,253
FF&E reserve income	19,767	18,147	18,000
Interest income	1,373	627	733
Gain on lease terminations	–	–	107,516
Total revenues	834,412	645,368	552,801
EXPENSES:			
Hotel operating expenses	476,858	333,818	145,863
Interest (including amortization of deferred financing costs of $2,894, $2,744 and $2,536, respectively)	65,263	50,393	44,536
Depreciation and amortization	131,792	114,883	104,807
General and administrative	23,296	19,386	16,800
Loss on early extinguishment of debt	–	–	2,582
Loss on asset impairment	7,300	–	–
Total expenses	704,509	518,480	314,588
Income before gain on sale of real estate	129,903	126,888	238,213
Gain on sale of real estate	–	203	–
Net income	129,903	127,091	238,213
Preferred distributions	7,656	9,674	14,780
Excess of liquidation preference over carrying value of preferred shares	–	2,793	–
Net income available for common shareholders	$ 122,247	$ 114,624	$ 223,433
Weighted average shares outstanding	69,866	66,503	62,576
Basic and diluted earnings per share:			
Net income available for common shareholders	$ 1.75	$ 1.72	$ 3.57

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Shareholders' Equity

(in thousands, except share data)

	Preferred Shares					Common Shares					
	Series A		Series B								
	Number of Shares	Preferred Shares	Number of Shares	Preferred Shares	Cumulative Preferred Distributions	Number of Shares	Common Shares	Cumulative Common Distributions	Additional Paid-In Capital	Cumulative Net Income	Total
Balance at December 31, 2002	3,000,000	$ 72,207	3,450,000	$ 83,306	$ (26,481)	62,547,348	$ 625	$ (868,732)	$ 1,668,230	$ 715,865	$ 1,645,020
Common share grants	-	-	-	-	-	39,730	1	-	1,181	-	1,182
Net income	-	-	-	-	-	-	-	-	-	238,213	238,213
Distributions	-	-	-	-	(13,611)	-	-	(225,276)	-	-	(238,887)
Balance at December 31, 2003	3,000,000	72,207	3,450,000	83,306	(40,092)	62,587,078	626	(1,094,008)	1,669,411	954,078	1,645,528
Issuance of shares, net	-	-	-	-	-	4,600,000	46	-	192,638	-	192,684
Common share grants	-	-	-	-	-	16,150	-	-	680	-	680
Redemption of preferred shares	(3,000,000)	(72,207)	-	-	-	-	-	-	(2,793)	-	(75,000)
Net income	-	-	-	-	-	-	-	-	-	127,091	127,091
Distributions	-	-	-	-	(11,588)	-	-	(193,522)	-	-	(205,110)
Balance at December 31, 2004	-	-	3,450,000	83,306	(51,680)	67,203,228	672	(1,287,530)	1,859,936	1,081,169	1,685,873
Issuance of shares, net	-	-	-	-	-	4,700,000	47	-	199,186	-	199,233
Common share grants	-	-	-	-	-	17,350	-	-	761	-	761
Net income	-	-	-	-	-	-	-	-	-	129,903	129,903
Distributions	-	-	-	-	(7,656)	-	-	(152,659)	-	-	(160,315)
Balance at December 31, 2005	-	$ -	3,450,000	$ 83,306	$ (59,336)	71,920,578	$ 719	$ (1,440,189)	$ 2,059,883	$1,211,072	$ 1,855,455

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(in thousands)

	Year Ended December 31,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 129,903	$ 127,091	$ 238,213
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	131,792	114,883	104,807
Non-cash portion of gain on lease terminations	-	-	(104,951)
Amortization of deferred financing costs as interest	2,894	2,744	2,536
Non-cash income	(2,952)	(2,952)	(6,719)
FF&E reserve income and deposits	(32,338)	(29,522)	(25,248)
Loss on early extinguishment of debt	-	-	2,582
Gain on sale of real estate	-	(203)	-
Loss on asset impairment	7,300	-	-
Changes in assets and liabilities:			
(Increase) decrease in other assets	(1,091)	2,262	(1,339)
Increase in accounts payable and other	6,492	7,490	9,485
Increase in due to affiliate	306	1,325	39
Cash provided by operating activities	242,306	223,118	219,405
CASH FLOWS FROM INVESTING ACTIVITIES:			
Real estate acquisitions	(443,104)	-	(354,577)
FF&E reserve funding	(45,390)	(10,211)	(33,905)
Real estate acquistion deposit	(10,000)	-	-
Increase in security deposits	10,000	-	16,872
Proceeds from sale of real estate	3,227	7,750	-
Cash used in investing activities	(485,267)	(2,461)	(371,610)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common shares, net	199,233	192,684	-
Debt issuance, net of discount	299,442	-	296,997
Repayment of senior notes	-	-	(150,000)
Redemption of preferred shares	-	(75,000)	-
Draws on revolving credit facility	319,000	293,000	391,000
Repayments of revolving credit facility	(356,000)	(422,000)	(190,000)
Deferred finance costs paid	(7,339)	(2)	(2,877)
Distributions to preferred shareholders	(7,656)	(11,588)	(13,611)
Distributions to common shareholders	(201,045)	(188,285)	(180,213)
Cash provided by (used in) financing activities	245,635	(211,191)	151,296
Increase (decrease) in cash and cash equivalents	2,674	9,466	(909)
Cash and cash equivalents at beginning of year	15,894	6,428	7,337
Cash and cash equivalents at end of year	$ 18,568	$ 15,894	$ 6,428
SUPPLEMENTAL INFORMATION:			
Cash paid for interest	$ 56,597	$ 47,612	$ 34,929
Non-cash operating activities:			
Net assets transferred in lease default	-	4,920	151,445
Non-cash investing activities:			
Property managers deposits in FF&E reserve	31,056	27,296	22,679
Purchases of fixed assets with FF&E reserve	(76,860)	(46,529)	(53,337)
Non-cash financing activities:			
Issuance of common shares	761	680	1,181

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

1. ORGANIZATION

Hospitality Properties Trust, or HPT, we or us, is a real estate investment trust, or REIT, organized on February 7, 1995, under the laws of the State of Maryland, which invests in hotels. At December 31, 2005, HPT, directly and through subsidiaries, owned 298 properties.

The properties of HPT and its subsidiaries are operated by companies unaffiliated with HPT: Host Marriott Corporation, or Host; Marriott International, Inc., or Marriott; InterContinental Hotels Group, plc, or InterContinental; Barcelo Crestline Corporation, or Barcelo Crestline; Global Hyatt Corporation, or Hyatt; Carlson Hotels Worldwide, or Carlson; and BRE/Homestead Village LLC, or Homestead. Hereinafter these hotel operators are sometimes referred to as managers and/or tenants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. These consolidated financial statements include the accounts of HPT and its subsidiaries, all of which are 100% owned directly or indirectly by HPT. We have determined that each of our taxable REIT subsidiaries, or TRSs, is a variable interest entity that must be consolidated because we are the primary beneficiary. All intercompany transactions and balances have been eliminated.

Real Estate Properties. Real estate properties are recorded at cost. We allocate the cost of real estate acquired among building, land, furniture, fixtures and equipment, and, if applicable, the value of in-place leases, the fair market value of above or below market leases and customer relationships. Depreciation on real estate properties is recognized on a straight line basis over estimated useful lives of up to 40 years for buildings and improvements and up to 12 years for personal property. The value of intangible assets is amortized over the term of the associated lease.

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows of the related properties to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent financial performance and projected discounted cash flows of properties using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of its long-lived assets. If estimated lives are changed, the carrying values of affected assets are allocated over the revised remaining lives.

Cash and Cash Equivalents. Highly liquid investments with original maturities of three months or less at date of purchase are considered to be cash equivalents. The carrying amount of cash and cash equivalents is equal to its fair value.

Restricted Cash. Restricted cash consists of amounts escrowed to fund periodic renovations and improvements at our hotels.

Deferred Financing Costs. Costs incurred to borrow are capitalized and amortized as interest expense over the term of the related borrowing. Deferred financing costs were $9,110 and $4,180 at December 31, 2005 and 2004, respectively, net of accumulated amortization of $3,301 and $6,699, respectively, and are included in other assets, net in the accompanying consolidated balance sheet.

Revenue Recognition. We report hotel operating revenues for managed hotels in our consolidated statement of income. Hotel operating revenues, consisting primarily of room sales and sales of food, beverage and communication services are generally recognized when services are performed. Our share of the operating results of our managed hotels in excess of the minimum returns due us are generally determined annually. Hotel operating income in excess of the minimum returns due to us under our management agreements is recognized when all contingencies are met and the income is earned.

We recognize rental income from operating leases on a straight line basis over the life of the lease agreements. Percentage rent is recognized when all contingencies are met and the rent is earned.

We own all the FF&E reserve escrows for hotels leased to our TRSs and for most of the hotels leased to third parties. One third party lease provides that the FF&E reserve escrow is owned by the tenant and we have a security and remainder interest in that escrow account. When we own the escrow account, payments by our third party tenants into the escrow are reported by us as FF&E reserve income. When we have a security and remainder interest in the escrow account, tenant deposits are not included in revenue.

Per Common Share Amounts. Per common share amounts are computed using the weighted average number of common shares outstanding during the period. We have no common share equivalents, instruments convertible into common shares or other dilutive instruments.

Reclassifications. Reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts. Actual results could differ from those estimates.

Segment Information. We have only one operating segment, hotel investments.

Income Taxes. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. As a REIT, we are generally not subject to federal income taxes on our net income provided we distribute our taxable income to our shareholders and meet certain organization and operating requirements. Even as a REIT, we are subject to taxes in non-U.S. jurisdictions in which we own hotels and in certain state and local jurisdictions. Further, we lease our managed hotels to our wholly owned TRSs that, unlike most of our other subsidiaries, are taxable entities that together file one consolidated tax return.

We account for income taxes under the provisions of Statement of Financial Accounting Standards, or SFAS, No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected to be realized. SFAS 109 generally permits deferred tax assets and liabilities to be offset and presented as a single amount except in cases where they are attributable to different tax paying components such as a REIT and its TRS.

At December 31, 2005 we had a deferred tax liability of $9,333 related to the hotel we purchased in Puerto Rico in February 2005. Specifically, we acquired all of the outstanding stock of a C corporation that owned the hotel as its primary asset, which generally would cause us to succeed to the acquired corporation's tax bases. However, for U.S tax purposes we made an election under Section 338(g) of the Internal Revenue Code to avoid being treated as the successor to the acquired corporation's federal income tax attributes, including its adjusted tax bases. We made no such election for Puerto Rico tax purposes. Under SFAS 109 we are required to establish deferred tax assets and liabilities for the tax effects of differences between assigned values in the purchase price allocation and the tax bases of assets and liabilities assumed in a purchase business combination. Because a REIT (or its subsidiary) is subject to tax in Puerto Rico, we recorded in purchase accounting a deferred tax liability for these bases differences at our Puerto Rico effective tax rate.

At December 31, 2005 and 2004 our consolidated TRS had a net deferred tax asset, prior to any valuation allowance, of $2,314 and $2,806, respectively, which consists primarily of net operating loss carryforwards and reserves for bad debts. Because of the uncertainty surrounding our ability to realize the future benefit of these assets we have provided a 100% valuation allowance as of December 31, 2005 and 2004. Accordingly, no provision or benefit for income taxes with respect to our consolidated TRS is reflected in the accompanying consolidated statement of income. As of December 31, 2005 our consolidated TRS had net operating loss carryforwards for federal income tax purposes of approximately $3,823 which will expire beginning in 2024, if they remain unused.

3. SHAREHOLDERS' EQUITY

We reserved an aggregate of 3,128,791 shares of our common shares to be issued under the terms of the 1995 Incentive Share Award Plan and the 2003 Incentive Share Award Plan, collectively referred to as the Award Plans. During the year ended December 31, 2005, we awarded 15,850 common shares to our officers and certain employees of our manager pursuant to these plans. In addition, our independent trustees are each awarded 500 common shares annually as part of their annual fees. The shares awarded to the trustees vest immediately. The shares awarded to our officers and certain employees of our manager vest in three annual installments beginning on the date of grant. Share awards are expensed over their vesting period. At December 31, 2005, 2,862,979 of our common shares remain reserved for issuance under the Award Plans.

On June 5, 2005, we sold 4,500,000 of our common shares at a price of $44.39 per share in a public offering. On June 24, 2005, we sold an additional 200,000 common shares at a price of $44.39 pursuant to an over allotment option granted to the underwriters. Net proceeds from these sales, after underwriting and other offering expenses, were $199,233. We used these proceeds to reduce borrowings outstanding under our revolving credit facility.

On April 12, 2004, we redeemed all of our outstanding 9 1/2% Series A preferred shares at their liquidation preference of $25 per share plus accrued and unpaid distributions of $0.0792 per share. The excess of the liquidation preference of the redeemed shares over their carrying amount of $2,793 was charged to additional paid in capital and deducted from net income to determine net income available to common shareholders in the calculation of earnings per share.

Each of our 3,450,000 Series B cumulative redeemable preferred shares has a distribution rate of $2.21875 per annum, payable in equal quarterly amounts, and a liquidation preference of $25 ($86,250 in aggregate). Series B preferred shares are redeemable at our option for $25 each plus accrued and unpaid distributions at any time on or after December 10, 2007.

Cash distributions paid or payable by us to our common shareholders for the years ended December 31, 2005, 2004 and 2003, were $2.90 per share, $2.88 per share and $2.88 per share, respectively. The characterization for income tax reporting purposes of the distributions paid to our common shareholders in 2005, 2004 and 2003 was 96.9%, 100.0% and 100.0% ordinary income, respectively, and 3.1%, 0.0% and 0.0% return of capital, respectively.

4. MANAGEMENT AGREEMENTS AND LEASES

As of December 31, 2005, each of our 298 hotels is included in one of ten combinations of hotels and either leased to our TRSs and managed by an independent hotel operating company or leased to a third party. We do not operate hotels. At December 31, 2005, we had 189 managed hotels and 109 leased hotels. Our agreements have initial terms expiring between 2010 and 2030. Each of these agreements is for a combination or pool of between 12 and 76 of our hotels. The agreements contain renewal options for all, but not less than all, of the affected properties, and the renewal terms total 20 to 40 years. Each agreement generally requires the third party manager or tenant to: (i) make payments to us of minimum returns or minimum rents; (ii) deposit a percentage of total hotel sales into reserves established for the regular refurbishment of our hotels, or FF&E reserves; and (iii) make payments to us of percentage returns or rent of 5% to 10% of increases in gross hotel revenues over threshold amounts and/or, in certain circumstances, make payments to our TRSs of additional returns based on increases in hotel operating income. Some of the third party managers or tenants have provided deposits or guarantees to secure their obligation to pay us.

(dollars in thousands, except per share data)

As of December 31, 2005, our management agreements and leases provide for minimum return payments or minimum rents to be paid to us during the remaining initial terms as follows:

	Total Minimum Return Payments Under Management Agreements with Third Parties	Total Minimum Lease Payments from Third Parties
2006	$ 192,684	$ 125,256
2007	193,534	125,256
2008	193,959	125,256
2009	193,959	125,256
2010	193,959	125,256
Thereafter	2,965,822	450,739
	$ 3,933,917	$ 1,077,019

As of December 31, 2005, the average remaining initial terms of our leases and management agreements, weighted based on minimum returns or rents from third parties, was approximately 15.9 years, and the weighted average remaining total term, including renewal options which may be exercised, was 46.1 years.

We settled all our outstanding claims with Prime Hospitality Corp., or Prime, a former manager, arising from its July 2003 lease default by entering a management agreement for our 24 AmeriSuites® hotels effective on January 1, 2004. The balance of the retained deposits and the value of other property received from Prime pursuant to this settlement, totaling approximately $44,281, is being amortized into our income on a straight line basis over the initial 15 year term of the management contract for the affected hotels. The unamortized balance of $38,377 at December 31, 2005, is included in accounts payable and other liabilities in the accompanying consolidated balance sheet. In October 2004, Prime was sold to the Blackstone Group, or Blackstone. In January 2005, Blackstone sold the AmeriSuites® brand and transferred operating responsibility for these hotels to Hyatt.

During 2003, we entered into agreements related to the termination of three leases. We recorded gains of $107,516 in connection with these agreements.

5. REAL ESTATE PROPERTIES

Our real estate properties, at cost, consisted of land of $537,389, buildings and improvements of $2,717,965 and furniture, fixtures and equipment of $371,339, as of December 31, 2005; and land of $460,748, buildings and improvements of $2,356,860 and furniture, fixtures and equipment of $363,382, as of December 31, 2004. As of December 31, 2005, we owned 298 hotel properties.

During 2005, 2004 and 2003, we invested $45,390, $10,211 and $33,905 respectively, in our owned hotels in excess of amounts funded from FF&E reserves. As a result of these additional investments, manager and tenant obligations to us for annual minimum return payments or minimum rents increased $2,384, $841 and $3,391 in 2005, 2004 and 2003, respectively.

On December 17, 2004, we agreed to purchase 13 hotels from InterContinental for $450,000. The hotels include four full service InterContinental® hotels, four full service Crowne Plaza® hotels, three full service Holiday Inn® hotels and two extended stay Staybridge Suites® hotels. These hotels have a total of 3,946 rooms/suites and approximately 164,000 square feet of meeting space. The hotels are located in six states in the United States; one InterContinental® hotel and one Staybridge Suites® hotel are located in Ontario, Canada; and one InterContinental® hotel is located in San Juan, Puerto Rico. The $450,000 purchase price includes $25,000 which we have agreed to pay during the three years following the closing in connection with certain improvements to the hotels. On February 16, 2005, we completed the acquisition of 12 of the 13 hotels; on May 31, 2005, we completed the purchase of the final hotel.

In connection with our decision in June 2005 to sell our Prime Hotel℠ located in Atlanta, Georgia we recorded $7,300 loss on asset impairment to reduce the carrying value of the hotel to its estimated net realizable value less cost to sell. We sold the hotel in September 2005.

On November 1, 2005, we acquired a Country Inns & Suites by Carlson® hotel located in Brooklyn Center, Minnesota with 84 guestrooms from Carlson for $4,100.

(dollars in thousands, except per share data)

At December 31, 2005, 13 of our hotels were on land leased from unrelated third parties. The remaining term of each ground lease (including renewal options) is in excess of 29 years. Ground rent payable under nine of these ground leases is generally calculated as a percentage of hotel revenues. Eleven of the 13 ground leases require minimum annual rent ranging from approximately $102 to $556 per year; and minimum rents under two ground leases have been pre-paid. Under the terms of our leases and management agreements, payments of ground lease obligations are made by our managers or tenants. However, if a manager or tenant did not perform obligations under a ground lease or elected not to renew any ground lease, we might have to perform obligations under the ground lease or renew the ground lease in order to protect our investment in the affected hotel. Future minimum annual rent payments due under the ground leases are $1,994 for 2006 through 2008, $1,784 for 2009 and 2010 and total $73,709 for all years thereafter.

6. INDEBTEDNESS

At December 31, 2005 and 2004, our indebtedness was as follows:

	As of December 31,	
	2005	2004
Senior Notes, due 2008 at 7%	$ 150,000	$ 150,000
Senior Notes, due 2010 at 9.125%	50,000	50,000
Senior Notes, due 2012 at 6.85%	125,000	125,000
Senior Notes, due 2013 at 6.75%	300,000	300,000
Senior Notes, due 2015 at 5.125%	300,000	–
Unamortized discounts	(3,394)	(3,321)
Total unsecured senior notes	921,606	621,679
Unsecured revolving credit facility	35,000	72,000
Mortgage Note, due 2011 at 8.3%	3,766	3,826
	$ 960,372	$ 697,505

All of our senior notes are prepayable at any time prior to their maturity date at par plus accrued interest plus a premium equal to a make whole amount, as defined, generally designed to preserve a stated yield to the noteholder. Interest on all of our senior notes is payable semi-annually in arrears.

On May 23, 2005, we amended and restated our revolving credit facility with a group of commercial banks. Our credit facility matures in June 2009 and may be extended at our option to June 2010 upon our payment of an extension fee. Borrowings under the credit facility can be up to $750,000 and the credit facility includes a feature under which the maximum amount available for borrowing may be increased to $1,500,000, in certain circumstances. Borrowings under our credit facility are unsecured. Funds may be drawn, repaid and redrawn until maturity, and no principal repayment is due until maturity. Interest on borrowings under the credit facility is payable at a spread above LIBOR. As of December 31, 2005, the $35,000 outstanding on our credit facility accrued interest at 5.03% and $715,000 was available to be drawn. During 2005, 2004 and 2003, the weighted average interest rate on the amounts outstanding under our revolving credit facility was 4.2%, 2.8% and 2.5%, respectively.

Our revolving credit agreement and note indenture and its supplements contain financial covenants which, among other things, restrict our ability to incur indebtedness and require us to maintain financial ratios and a minimum net worth. We were in compliance with these covenants during the periods presented.

As of December 31, 2005 and 2004, the estimated aggregate market values of our indebtedness were as follows:

	As of December 31,	
	2005	2004
Revolving credit facility at 5.03%	$ 35,000	$ 72,000
Senior Notes, due 2008 at 7%	157,635	165,287
Senior Notes, due 2010 at 9.125%	59,126	62,676
Mortgage Note, due 2011 at 8.3%	4,470	4,504
Senior Notes, due 2012 at 6.85%	137,521	143,207
Senior Notes, due 2013 at 6.75%	327,832	340,760
Senior Notes, due 2015 at 5.125%	295,539	–
	$ 1,017,123	$ 788,434

(dollars in thousands, except per share data)

7. TRANSACTIONS WITH AFFILIATES

Reit Management & Research LLC, or RMR, originates and presents investment opportunities to our board and provides administrative services to us. Our contract with RMR for such services continues from year to year and is subject to the annual approval by a board committee comprised of our independent trustees. RMR is compensated at an annual rate equal to 0.7% of our average real estate investments, as defined, up to the first $250,000 of such investments and 0.5% thereafter plus an incentive fee based upon increases in cash available for distribution per share, as defined. Management fees, excluding incentive fees, earned for the years ended 2005, 2004 and 2003 were $17,730, $15,812 and $14,540, respectively. Incentive fees are paid in restricted common shares based on a formula. Incentive fees for 2005, 2004 and 2003 were $1,397, $0 and $0, respectively. We expect to issue 33,973 restricted common shares in satisfaction of the 2005 incentive fees in 2006. As of December 31, 2005, RMR and its affiliates owned 459,834 of our common shares. RMR is beneficially owned by Barry M. Portnoy, who also serves as one of our managing trustees, and his son, Adam D. Portnoy, who is a Vice President of RMR.

8. CONCENTRATION

At December 31, 2005, our 298 hotels contained 42,376 rooms and were located in 38 states in the United States, Ontario, Canada and Puerto Rico. Between 5% and 14% of our hotels, by investment, were located in each of California, Texas, Virginia, Georgia and Florida. Our two hotels in Ontario, Canada and our hotel in Puerto Rico represent 1% and 4% of our hotels, by investment, respectively.

All of our third party managers or tenants are subsidiaries of other companies. The percentage of our minimum return payments and minimum rents, for each combination of hotels is shown below, as of December 31, 2005.

Manager / Tenant is a Subsidiary of:	Number of Properties	Minimum Return / Minimum Rent	% of Total
Host (no. 1)	53	$ 55,951	18%
InterContinental (no. 2)	76	50,000	16%
Marriott	35	47,986	15%
InterContinental (no. 1)	30	36,097	11%
InterContinental (no. 3)	13	34,713	11%
Barcelo Crestline	19	28,508	9%
Host (no. 2)	18	18,705	6%
Hyatt	24	18,000	6%
Homestead	18	15,960	5%
Carlson	12	9,045	3%
Total	298	$ 314,965	100%

Minimum return and minimum rent payments due to us under some of our management agreements and leases are supported by guarantees. The guarantee provided by Hyatt with respect to the 24 hotels managed by Hyatt is limited to $50,000 ($50,000 remaining at December 31, 2005). The guarantee provided by Carlson with respect to the 12 hotels managed by Carlson is limited to $40,000 ($37,790 remaining at December 31, 2005). The combined guarantee provided by InterContinental for the 119 hotels managed or leased by InterContinental is limited to $125,000 ($115,922 remaining at December 31, 2005) and will expire if and when the hotels achieve stipulated operating results. The guarantee provided by Homestead expires if and when the hotels achieve stipulated operating results.

Each of our hotels is included in a combined management agreement or lease as described above. Operations at some of our managed hotels generated net financial results that were $2,491, $10,470 and $6,922 less than the guaranteed minimum returns due us in 2005, 2004 and 2003, respectively. These amounts have been paid by the hotel managers or their guarantors and are reflected as a reduction of hotel operating expenses in our consolidated statement of income.

(dollars in thousands, except per share data)

9. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 180,747	$ 218,081	$ 221,687	$ 213,897
Net income available for common shareholders	26,792	20,497	28,671	46,287
Net income available for common shareholders per share (1)	.40	.30	.40	.64
Distributions per common share (2)	.72	.72	.73	.73

	2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 153,311	$ 163,231	$ 171,992	$ 156,834
Net income available for common shareholders	23,054	28,835	28,793	33,942
Net income available for common shareholders per share (1)	. 36	. 43	. 43	.51
Distributions per common share (2)	.72	.72	.72	.72

(1) The sum of per common share amounts for the four quarters differs from annual per share amounts due to the required method of computing weighted average number of shares in interim periods and rounding.

(2) Amounts represent distributions declared with respect to the periods shown. Distributions are generally paid in the quarterly period following the quarterly period to which they relate.

10. SUBSEQUENT EVENTS

On January 6, 2006, we purchased the Harbor Court Complex in the Inner Harbor area of Baltimore, Maryland for $78,000. The Harbor Court Complex is a mixed use development comprised of the five star, five diamond Harbor Court Hotel, a 72,042 square foot office building and a 530 space seven story parking garage. The hotel has 195 guest rooms, including 22 suites, 8,000 square feet of meeting space and a roof top fitness center that includes a tennis court, squash court, indoor pool, aerobics center and spa therapy rooms. Simultaneously with this purchase, we entered into an agreement with InterContinental to manage the Harbor Court Hotel under its InterContinental Hotels & Resorts® brand. This hotel has been added to the combination agreement for 13 hotels managed by InterContinental. Our minimum return from this expanded combination of hotels will increase by $4,800 in 2006, $5,200 in 2007 and $5,300 per year thereafter. We have agreed to invest up to $2,300 over the next two years in connection with the rebranding of the Harbor Court Hotel as the InterContinental® Harbor Court Baltimore. In addition to the returns generated by the hotel component of the complex, we will receive the net cash flow from the office and parking parts of the property; and we have entered into a management agreement with RMR to operate the office building and an agreement with an unaffiliated third party to manage the parking garage.

On January 25, 2006, we agreed to purchase nine hotels for $196,200 and to invest $25,100 in these hotels during the three years following closing to fund capital improvements. These hotels include five full service Crowne Plaza® hotels, one full service Holiday Inn Select® hotel, two Staybridge Suites® hotels and one Holiday Inn SunSpree Resort® hotel; they have a total of 2,712 rooms/suites and approximately 68,000 square feet of meeting space. These hotels are located in three states in the United States and the Holiday Inn SunSpree Resort® hotel is located in Montego Bay, Jamaica. On January 25, 2006, we completed the acquisition of eight of the nine hotels with an effective date of January 20, 2006. The purchase of the 524 room Holiday Inn SunSpree Resort® hotel for approximately $30,000 was delayed pending Jamaican tax and regulatory approvals, and is expected to close later in 2006. Circumstances may delay this purchase for an extended period or prevent its occurring. Simultaneous with our purchase of these eight hotels, we entered a long term combination management agreement with subsidiaries of InterContinental; simultaneous with our purchase of the Holiday Inn SunSpree Resort® we expect to enter a long term lease with a subsidiary of InterContinental. The annual combined amount payable to us for all nine hotels as a minimum return under the management contract and minimum rent under the lease will be $15,800 in 2006, $17,800 in 2007, $18,700 in 2008 and approximately $19,000 thereafter. In addition, we are entitled to receive additional return payments, a percentage of gross revenue over a threshold at these hotels starting in 2008 and the hotel cash flow remaining after the payment of base and incentive management fees. The minimum return under the management agreement and the minimum rent under the lease are calculated and payable in U.S. dollars. Other amounts due with respect to the hotel in Jamaica may be calculated in Jamaican dollars but will be payable in U.S. dollars. The management agreement and the lease each extend through 2030, and InterContinental has two all or none renewal options for 15 years each. The obligations to pay the minimum return under the management agreement and the minimum rent under the lease are supported by a limited guaranty from InterContinental until these hotels achieve stipulated levels of operating income. Further, the obligation to pay the minimum return under the management agreement will also be supported by a limited guaranty from the InterContinental subsidiary tenant for the hotel in Jamaica. The agreements also require a reserve for capital expenditures starting in 2008.

Corporate Information

EXECUTIVE OFFICES

Hospitality Properties Trust
400 Centre Street
Newton, Massachusetts 02458
(617) 964-8389
www.hptreit.com

OFFICERS

John G. Murray
President,
Chief Operating Officer
and Secretary

Mark L. Kleifges
Treasurer and
Chief Financial Officer

Ethan S. Bornstein
Vice President

BOARD OF TRUSTEES

DIRECTOR OF INTERNAL AUDIT

William J. Sheehan

MANAGER OF INVESTOR RELATIONS

Timothy A. Bonang

MANAGER

Reit Management & Research LLC
400 Centre Street
Newton, Massachusetts 02458

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
200 Clarendon Street
Boston, Massachusetts 02116

COUNSEL

Sullivan & Worcester LLP
One Post Office Square
Boston, Massachusetts 02109

STOCK TRANSFER AGENT AND REGISTRAR

Wells Fargo Bank, National Association
Wells Fargo Shareowner Services
P.O. Box 64856
St. Paul, Minnesota 55164-0856
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www.shareowneronline.com

SENIOR NOTES TRUSTEE AND REGISTRAR

U.S. Bank National Association
Corporate Trust Services
One Federal Street
Boston, Massachusetts 02110

ANNUAL MEETING

Our annual meeting of shareholders will be held on May 23, 2006 at 11:00 A.M. at 400 Centre Street, Newton, Massachusetts. All shareholders are invited to attend.

AVAILABLE INFORMATION

A copy of our 2005 Annual Report on Form 10-K, including the financial statements and schedules (excluding exhibits), as filed with the Securities and Exchange Commission, can be obtained without charge through our website at www.hptreit.com or by writing to our Manager of Investor Relations at our executive offices address.

STOCK MARKET DATA

Our common shares of beneficial interest are traded on the NYSE under the symbol HPT. The following table sets forth the high and low prices of our common shares in 2004 and 2005 as reported on the NYSE composite tape:

Quarter Ended	High	Low
March 31, 2004	$ 46.40	$ 40.40
June 30, 2004	46.86	35.56
September 30, 2004	43.50	39.06
December 31, 2004	47.35	41.87
March 31, 2005	$ 46.28	$ 38.00
June 30, 2005	44.72	39.67
September 30, 2005	45.04	40.51
December 31, 2005	43.30	38.42

As of March 10, 2006, there were 1,045 holders of record of our common shares and we estimate that as of such date there were in excess of 60,000 beneficial owners of our common shares.

The closing price for our common shares as reported on the NYSE composite tape on March 10, 2006, was $46.34.

OTHER INFORMATION

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission, includes certificates of our Managing Trustees, our President and Chief Operating Officer and our Treasurer and Chief Financial Officer regarding our disclosure controls and procedures and internal control over financial reporting and other matters required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. We have also submitted to the NYSE a certificate of our President and Chief Operating Officer certifying that he is not aware of any violation by us of NYSE corporate governance listing standards.

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