The Lodging Capital Specialists

Ashford Hospitality Trust

2005 Annual Report

Source.

Sourcing the most attractive long-term investments requires insight, vision and extensive relationships. Ninety percent of our investments have been non-marketed or pre-emptive transactions.

Listen.

We tune out the noise and listen for what the market is really saying as well as what it is not. This yields a greater focus on the true motivations of sellers, buyers, lenders and borrowers.

Analyze.

Numbers are not always meant to be crunched. We look past the short-term numbers to analyze the long-term trends. Then, we get ahead of those trends.

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= 29.5 kJ

Create.

The best investment plan is developed with patience, experience and creativity. We tailor a unique value creation strategy for every investment opportunity we pursue.

Deliver.

Dear Fellow Shareholder – The past year exhibited significant activity in the lodging industry as marked by continued improvement in supply/demand fundamentals, increased transaction volume, and increased mergers and acquisitions activity of public companies. In the midst of this robust market, Ashford has maintained its disciplined strategies. We remained focused on balancing our internal and external growth together with effective deployment and recycling of capital to generate higher returns on equity, increase our cash available for distribution (CAD) per share, and enhance the safety and growth of our dividend. We believe the 2005 results demonstrate how well we executed these strategies.

Total hotel revenue for 2005 increased 193.4% to $317.1 million. Net income increased 109.4% to $134,000. Adjusted funds from operations (AFFO) increased 316.5% to $52.9 million, or $0.96 per diluted share. Earnings before interest, income taxes, depreciation, and amortization (EBITDA) increased 231.8% to $79.3 million. After adding back the loss on debt extinguishment and write-off of loan costs and exit fees in both 2005 and 2004, the improvement in EBITDA was even more pronounced with an increase of 272.5% to $95.1 million.

Internal growth was a key driver of this performance in 2005. We posted double-digit RevPAR increases in all four quarters for our hotels not under renovation. For the year, hotel operating profit in hotels not under renovation improved 17.6% with a 140 basis point margin increase.

The primary reason for this continued growth in RevPAR and operating profit is our value-added renovation program. For 2005, we invested a total of $38.3 million in capital expenditures across our portfolio, representing renovations at 25 hotels. Renovation plans for 2006 are even more aggressive. We have budgeted for an additional $75 million of improvements ($50 million to $60 million are expected to be completed by year end) to our properties. A total of 14 renovations are expected to be completed in the first half of 2006 alone with an additional 15 renovations to commence in the second half.

External growth generated by our direct hotel investment and hotel lending programs was a big contributor to our 2005 results as well. During the year, we acquired 53 hotels totaling 8,895 rooms for total consideration of approximately $806 million. Two of our transactions were large portfolios, a 21-property portfolio of primarily upper-upscale and upscale hotels acquired for $250 million in March and a 30-property portfolio of select-service Marriott-branded hotels in June for $465 million. We supplemented these portfolios with one-off, value-added transactions such as the Hilton Santa Fe and the Hyatt Dulles Airport that were timed to coincide with renovations and expected upturns in the market. We have continued that strategy into 2006 with two similar acquisition opportunities, the Marriott at Research Triangle Park, which will undergo a renovation

Case Study No. 1

FGSB Portfolio of Properties

One of our largest transactions of 2005 was the acquisition of 21 primarily upper-upscale and upscale hotels for total consideration of $250 million. This transaction was financed with cash, issuance of operating partnership units and the assumption of debt. We identified 13 of these assets as "core" hotels and subsequently sold off 8 of the hotels for total proceeds of $37.5 million which enhanced our basis in the remaining assets. We subsequently refinanced the debt of the core hotels at a much more attractive rate for virtually the same proceeds level as our basis, and in the process unencumbered three of the hotels. As of year end, the TTM EBITDA yield and the TTM NOI cap rate on this portfolio was 12.2% and 10.1%, respectively. Our strategy resulted in the "off-market" acquisition of a high-yielding hotel portfolio with a lower debt structure, while freeing up proceeds for capital improvements and reinvestment, and additionally creating value through the unencumbering of three assets.

this year, and the Pan Pacific San Francisco Hotel, expected to close in late Spring, which we will re-brand and renovate in anticipation of continued growth in the San Francisco market.

Our hotel lending program was very active in 2005. As of December 31, 2005, we owned a position in 12 mezzanine and first mortgage loans with total principal outstanding of $108 million with an average annual unleveraged yield of 14.2%. We originated and acquired several high profile loans during the year, including our first international opportunity – the Four Seasons Nevis in Nevis, West Indies. Ashford has become well known among the lenders and borrowers as an active and competitive provider of capital. We expect continued growth in our loan portfolio during 2006 as we capitalize on this increased awareness and utilize our lower cost credit line.

One area in particular where we have been very aggressive is in improving our capital base. This activity during 2005 centered on capital recycling as well as securing very attractive sources of debt and equity capital that have given us dry powder to continue sourcing new investment opportunities while at the same time lowering our overall cost of debt and extending our maturities.

Through the end of the first quarter of 2006, we have completed the sale of 8 non-core hotels included in the portfolio of 21 hotels acquired in March 2005 for total gross proceeds of $37.5 million, as well as another 8 non-core hotels included in the portfolio of 30 hotels acquired in June 2005 for total proceeds of $102 million. Another seven hotels and an office building connected to one of our hotels are also designated for sale. Proceeds from these sales are being reinvested in renovations or funding for new investments.

At December 31, 2005, our net debt to total enterprise value was 53.6%. Of the $908.6 million in debt outstanding at year end, approximately 87% was fixed-rate debt and approximately 13% was variable-rate debt, with a total weighted average interest rate of 5.59% and a weighted average debt maturity of 8.6 years. We refinanced almost $1 billion of debt in 2005 at significantly lower fixed rates while increasing the number of unencumbered assets. Our credit facilities were also modified to provide for greater capacity, longer maturities and, again, lower rates. We are particularly excited about the new $100 million mezzanine warehouse facility we completed late in the year as it gave us 350 to 475 basis points in savings when compared with our previous mezzanine warehouse facility. With the lower cost and significantly enhanced flexibility, we are now better able to bid more competitively on new loan opportunities.

Case Study No. 2

HYATT REGENCY ORANGE COUNTY – ANAHEIM, CA

Acquiring assets to coincide with renovations and expected upturns in local markets is an important component of our investment strategy. An excellent example of this strategy is the Hyatt Regency Orange County, which was acquired in October 2004 while the renovation was still underway. Located close to Disneyland and the Anaheim Convention Center, the hotel had underperformed the market. Today, the hotel is producing a TTM EBITDA yield of 10.7% and a TTM NOI cap rate of 9.0% compared with 8.0% and 6.5%, respectively, at acquisition. The hotel has also increased its revenue year over year by 26%. Our strategy capitalized on the opportunity to buy an asset coming out of renovation in a strong recovering market .

When compared with our peers as of December 31, 2005, we believe our overall debt structure is among the best. We have the second highest ratio of fixed-rate debt to total debt, one of the highest rankings in terms of average years to maturity and one of the lowest rankings in terms of weighted average cost of debt. In addition to the financings secured during the year, this flexible capital structure is also a direct result of several capital markets transactions. We completed two follow-on offerings in 2005 totaling 15.5 million shares and raising $146 million in net proceeds, each achieved with sequential increases in the offering price. We also completed another offering in January 2006 that sold 12.1 million shares and raised $135.0 million of gross proceeds.

We continued our record of increasing dividends in 2005, with four consecutive quarterly increases, culminating in a $0.20 per share dividend for the fourth quarter. More importantly, for the year our dividend payout ratio was 80.7% of CAD and 74% of AFFO. These ratios improved from 104.7% and 109.8%, respectively, in 2004.

During the fourth quarter, the Board of Directors established a new dividend policy for 2006. Under the new policy, we expect to pay a quarterly cash dividend of $0.20 per share for 2006. We believe this policy, together with capital recycling and an active investment strategy, should provide our shareholders with solid dividends while gradually reducing our payout ratio.

We have made a very strong start to 2006 with our core strategies of sourcing attractive opportunities and accessing and reallocating capital at the appropriate times. With one of the most attractive balance sheets in the industry, we are well-positioned to take advantage of the favorable supply/demand outlook for the hotel industry. Net new hotel supply, particularly in our markets and in those we have targeted, continues to be muted. Corporate, leisure and group business demand show no signs of letting up with an improving economic outlook and increased travel budgets. As long as we see accretive investments and can source debt and equity at the right price, we expect to be active on the investment front again in 2006.

On the eve of our third full year as a public company, we are proud to note that Ashford Hospitality Trust is in its best shape from a financial, organizational and portfolio perspective. We look forward to reporting our progress to you during the year. Thank you for your continued investment.

Sincerely,

Monty J. Bennett
President and Chief Executive Officer

Case Study No. 3

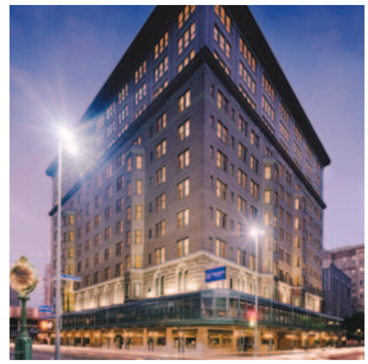
FOUR SEASON NEVIS – NEVIS, WEST INDIES

Our hotel lending program has become well known to first mortgage providers as well as to borrowers. As a result, we have had the opportunity to originate and participate in very attractive lending opportunities. One such opportunity is the Four Seasons Nevis in Nevis, West Indies, our first international investment. This AAA 5-diamond resort in the Caribbean is owned by an affiliate of Maritz, Wolff & Co. and managed by Four Seasons – two of the most prestigious owners and brands in the lodging industry. We acquired this $18.2 million mezzanine loan bearing interest at Libor plus 900bp in December 2005 from Calyon. Our strategy benefited from close banking relationships that selected Ashford to provide the mezzanine financing on favorable market terms.

Gallery

Four Seasons Nevis
Nevis, West Indies

Hyatt Dulles Airport
Herndon, Virginia



Sheraton Gunter
San Antonio, Texas

Embassy Suites Anaheim-South
Garden Grove, California

Residence Inn Orlando SeaWorld
Orlando, Florida

Marriott Cool Springs
Franklin, Tennessee

Hyatt Regency Orange County
Anaheim, California

Pan Pacific San Francisco
San Francisco, California

Marriott at Research Triangle Park
Durham, North Carolina

Current Portfolio

(as of March 31, 2006)

DIRECT HOTEL INVESTMENTS

Courtyard Alpharetta – *Alpharetta, Georgia*
Courtyard Ft. Lauderdale Weston – *Ft. Lauderdale, Florida*
Courtyard Irvine – *Foothill Ranch, California*
Courtyard Overland Park – *Overland Park, Kansas*
Courtyard Palm Desert – *Palm Desert, California*
Courtyard Reagan Airport – *Crystal City, Virginia*
Crowne Plaza Beverly Hills – *Los Angeles, California*
Crowne Plaza La Concha – *Key West, Florida*
Doubletree Guest Suites – *Columbus, Ohio*
Doubletree Guest Suites – *Dayton/Miamisburg Dayton, Ohio*
Embassy Suites – *Austin, Texas*
Embassy Suites – *Dallas, Texas*
Embassy Suites – *Flagstaff, Arizona*
Embassy Suites – *Las Vegas, Nevada*
Embassy Suites – *Syracuse, New York*
Embassy Suites Dulles Airport – *Herndon, Virginia*
Embassy Suites Houston Galleria – *Houston, Texas*
Embassy Suites Phoenix Airport – *Phoenix, Arizona*
Embassy Suites West Palm Beach – *West Palm Beach, Florida*
Fairfield Inn & Suites by Marriott – *Kennesaw, Georgia*
Fairfield Inn by Marriott – *Princeton, Indiana*
Fairfield Inn by Marriott Evansville West – *Evansville, Indiana*
Hampton Inn – *Buford, Georgia*
Hampton Inn – *Evansville, Indiana*
Hampton Inn – *Horse Cave, Kentucky*
Hampton Inn – *Lawrenceville, Georgia*
Hampton Inn – *Terre Haute, Indiana*
Hilton Garden Inn – *Jacksonville, Florida*
Hilton Houston/NASA Clearlake – *Houston, Texas*
Hilton Santa Fe – *Santa Fe, New Mexico*
Hilton St. Petersburg Bayfront – *St. Petersburg, Florida*
Historic Inns – *Annapolis, Maryland*
Homewood Suites – *Mobile, Alabama*
Hyatt Dulles – *Herndon, Virginia*
Hyatt Regency Orange County – *Anaheim, California*
Marriott at Research Triangle Park – *Durham, North Carolina*
Pan Pacific San Francisco – *San Francisco, California* *
Radisson Hotel Boston/South Shore – *Rockland, Massachusetts*
Radisson Hotel Cincinnati Riverfront – *Covington, Kentucky*
Radisson Hotel City Centre Indianapolis – *Indianapolis, Indiana*
Radisson Hotel Indianapolis Airport – *Indianapolis, Indiana*
Radisson Hotel MacArthur Airport – *Holtsville, New York*
Radisson Hotel Milford – *Milford, Massachusetts*
Radisson Plaza Hotel Fort Worth – *Ft. Worth, Texas*
Residence Inn Fairfax – *Falls Church, Virginia*
Residence Inn Palm Desert – *Palm Desert, California*
Residence Inn San Diego Sorrento Mesa – *San Diego, California*
Residence Inn Sea World – *Orlando, Florida*
Residence Inn Salt Lake City – *Salt Lake City, Utah*
Sea Turtle Inn – *Atlantic Beach, Florida*
Sheraton Bucks County – *Bucks County, Pennsylvania*
Sheraton Minneapolis – *West Minnetonka, Minnesota*
SpringHill Suites Centreville – *Centreville, Virginia*
SpringHill Suites Charlotte – *Charlotte, North Carolina*
SpringHill Suites Gaithersburg – *Gaithersburg, Maryland*
SpringHill Suites Raleigh Airport – *Durham, North Carolina*
TownePlace Suites Boston – *Tewksbury, Massachusetts*
TownePlace Suites Ft. Worth – *Ft. Worth, Texas*
TownePlace Suites Miami Airport – *Miami, Florida*
TownePlace Suites Miami Lakes – *Miami Lakes, Florida*
TownePlace Suites Mt. Laurel – *Mt. Laurel, New Jersey*
TownePlace Suites Portland – *Scarborough, Maine*
TownePlace Suites Silicon Valley – *Newark, California*

MEZZANINE & FIRST MORTGAGE INVESTMENTS

Adam's Mark Hotel – *Denver, Colorado*
Doubletree Albuquerque – *Albuquerque, New Mexico*
Embassy Suites Boston Logan Airport – *Boston, Massachusetts*
Embassy Suites Anaheim-South – *Garden Grove, California*
Four Season Nevis – *Nevis, West Indies*
Hotel Teatro – *Denver, Colorado*
Hyatt Regency – *Philadelphia, Pennsylvania*
Marriott Cool Springs – *Franklin, Tennessee*
Northland Inn and Executive Conference Center – *Minneapolis, Minnesota*
Sheraton Gunter – *San Antonio, Texas*
Viceroy Hotel – *Santa Monica, California*
The Westin Westminster – *Westminster, Colorado*

* *Under contract*

Corporate Information

CORPORATE OFFICE

Ashford Hospitality Trust, Inc.
14185 Dallas Parkway, Suite 1100
Dallas, Texas 75254
Telephone: (972) 490-9600
www.ahtreit.com

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Boston, Massachusetts

INDEPENDENT AUDITORS

Ernst & Young LLP
Dallas, Texas

LEGAL COUNSEL

Andrews Kurth LLP
Dallas, Texas

FORM 10-K AND QUARTERLY REPORTS/INVESTOR CONTACT

A copy of the Ashford Hospitality Trust Form 10-K Report for fiscal 2005, filed with the Securities and Exchange Commission, is included with this report. Additional copies of the report are available from the Company. Requests for these items and other investor contacts should be directed to Doug Kessler, COO & Head of Acquisitions, at the Company's corporate office or on the Internet at www.ahtreit.com.

CERTIFICATIONS BY MANAGEMENT

As required by the NYSE listing standards, Montgomery J. Bennett, our Chief Executive Officer, certified on May 23, 2005, that he was not aware of any violation by the Company of NYSE corporate governance listing standards. The certifications required by Section 302 of the Sarbanes-Oxley Act were filed with the SEC on March 14, 2006, as an exhibit to our Annual Report on Form 10-K.

ANNUAL MEETING

The annual meeting of shareholders will be held on May 2, 2006, at 10:00 a.m. (local time) at the Embassy Suites near the Galleria - Dallas, Texas. Shareholders of record as of the close of business on March 6, 2006, will be entitled to vote at this meeting.

COMMON STOCK AND DIVIDEND INFORMATION

The common stock of Ashford Hospitality Trust is traded on the New York Stock Exchange under the symbol AHT. The table below sets forth for the indicated periods the high and low sales prices for our common stock, as traded on that exchange, for the past two fiscal years. At March 10, 2006, there were approximately 14,400 shareholders based on the number of record holders of the Company's common stock and an estimate of the number of individual participants represented by security position listings.

	2005	
	HIGH	LOW
First Quarter	$ 10.84	$ 9.00
Second Quarter	$ 10.90	$ 9.70
Third Quarter	$ 12.22	$ 10.28
Fourth Quarter	$ 11.53	$ 9.78

	2004	
	HIGH	LOW
First Quarter	$ 10.52	$ 9.10
Second Quarter	$ 10.50	$ 8.10
Third Quarter	$ 9.55	$ 8.35
Fourth Quarter	$ 11.09	$ 9.25

FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. Ashford Hospitality Trust, Inc. (the "Company" or "we" or "our") cautions investors that any forward-looking statements presented herein, or which management may make orally or in writing from time to time, are based on management's beliefs and assumptions at that time. Throughout this report, words such as "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result," and other similar expressions, which do not relate solely to historical matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution investors that while forward-looking statements reflect our good faith beliefs at the time they are made, such statements are not guarantees of future performance and are impacted by actual events that occur after such statements are made. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, those discussed in our Annual Report on Form 10-K under the heading "Risk Factors." These risks and uncertainties continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment where new risk factors emerge from time to time. It is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Board of Directors

Archie Bennett, Jr.
Chairman of the Board of Directors

Monty J. Bennett
President and Chief Executive Officer

Martin L. Edelman
Of Counsel - Paul, Hastings, Janofsky & Walker LLP

W.D. Minami
President - Billy Casper Golf

W. Michael Murphy
Executive Vice President - First Fidelity Mortgage Corporation

Philip S. Payne
Chairman of the Board
BNP Residential Properties

Charles P. Toppino
Managing Director - Eastdil Secured

Officers

Monty J. Bennett
President and
Chief Executive Officer

Douglas A. Kessler
Chief Operating Officer and
Head of Acquisitions

David A. Brooks
Chief Legal Officer and
Head of Transactions

David J. Kimichik
Chief Financial Officer and
Head of Asset Management

Mark L. Nunneley
Chief Accounting Officer

ASHFORD
HOSPITALITY TRUST

The premier capital provider to the hospitality industry™

ASHFORD HOSPITALITY TRUST, INC.
14185 DALLAS PARKWAY, SUITE 1100 • DALLAS, TEXAS 75254
(972) 490.9600
WWW.AHTREIT.COM