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*A publicly traded company on the
 NASDAQ® Stock Market under the
 symbol MDH



Hospitality. Value. Opportunity.

Solid Performance. Sustained Momentum.



2007
 Annual Report

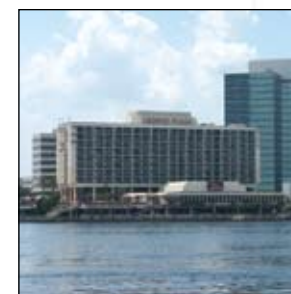
PORTFOLIO



Hilton Savannah DeSoto,
 Savannah, GA



Shell Island Resort,
 Wrightsville Beach, NC



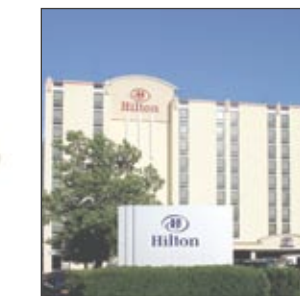
Crowne Plaza Riverfront,
 Jacksonville, FL



Holiday Inn Brownstone,
 Raleigh, NC



Sheraton Louisville Riverside,
 Jeffersonville, IN



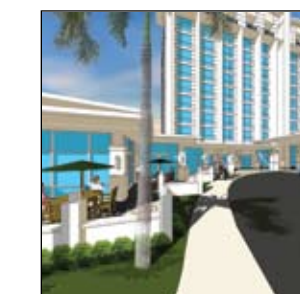
Hilton Philadelphia Airport,
 Philadelphia, PA



Hilton Wilmington Riverside,
 Wilmington, NC



Crowne Plaza Hollywood Beach,
 Hollywood Beach, FL



Crowne Plaza Tampa Westshore,
 Tampa, FL

A 2007 Renovation Award Winner
 awarded by InterContinental Hotels Group

Holiday Inn Laurel West
 Laurel, MD

SHAREHOLDER LETTER

To Our Shareholders:

We believe 2007 was our most productive year as a public company. Of equal significance is that 2007 marked the 50th anniversary of our predecessor company's founding. The cornerstones of our company – service, value and opportunity – have their roots in a small 12 room motel purchased by my father, Edgar Sims, in the Washington, DC suburbs in 1957. Although our company has experienced significant growth over the years, the focus remains the same as 50 years ago: to provide hospitality to our guests, to build value for our stakeholders and to identify opportunities for company growth.



Transaction Activity

In 2007 we saw the benefit of prior period planning that will lay the foundation for what we believe will be excellent incremental growth in the future:

- » We completed a joint venture with The Carlyle Group that provides up to \$450.0 million of leveraged deal capacity.
- » We completed acquisitions of \$88.0 million with the purchase of a hotel in Hollywood, Florida through our joint venture and a hotel in Tampa.
- » We completed financings of \$103.0 million.
- » We restructured the company's line of credit providing a lower interest rate and more favorable credit terms.
- » We commenced \$56.0 million of construction activity to improve the quality of the core portfolio through renovation and existing and newly acquired hotels.
- » We experienced good organic growth in our core portfolio both in terms of sales and improved profitability.

During the year we completed a joint venture with The Carlyle Group ("Carlyle") to acquire hotels with a consolidated deal value of approximately \$450.0 million on a leveraged basis. We believe the joint venture will provide an opportunity for significant growth with a high profile partner that has a stellar reputation in the market place.

During the year we completed two asset acquisitions – one in the Carlyle joint venture and one for our own account. In August we acquired the newly renovated 311 room Crowne Plaza Hollywood Beach, a resort hotel located on the barrier islands of this South Florida market, in partnership with Carlyle for a price of \$74.0 million. In November we acquired the 250 room former Clarion hotel for \$13.5 million located in the Westshore submarket of Tampa, Florida; the hotel is closed and undergoing a deep turn renovation.

During the year we completed three loan transactions with an aggregate value of \$103.0 million. We refinanced our Wilmington (\$23.0 million) and Savannah (\$23.0 million) assets with Mutual of New York; the "extend and blend" loans provide a ten year term extension at favorable fixed interest rates, while providing the necessary capital to renovate these hotels. We also placed a \$57.6 million loan with Societe Generale as part of our Carlyle joint venture to acquire the Hollywood asset. All three financing transactions were completed prior to the August credit crisis, thereby affording the company favorable terms and rate of interest.

In June 2007 we renegotiated the terms of our \$60.0 million line of credit to the benefit of the company. We procured a better rate of interest and more favorable credit terms that enhance the company's borrowing opportunities.

Throughout the year we commenced targeted renovations on our Wilmington, Savannah, and Louisville assets an aggregate amount of \$37.0 million. As part of the 10 year Hilton license extensions for Wilmington and Savannah, which were executed during the year, the hotels are undergoing extensive upgrading to comply with brand standards. In January 2007 we executed a 15 year license for Louisville with Starwood Hotels & Resorts to operate the hotel as a Sheraton; as a condition of the Sheraton license we are doing a complete renovation of the hotel. We added signature restaurants to two hotels by executing long term space leases with a Ruth's Chris Steakhouse franchisee in Wilmington and the Bristol in Louisville.

2007 Performance

Our core hotels continued to experience good organic growth as a result of prior period renovations in Philadelphia, Jacksonville and Laurel, and generally favorable conditions in the industry.

- » Total Hotel Sales increased 7.9%
- » Revenue per Available Room increased 6.0%
- » Net Operating Income increased 2.4%

Building Momentum

With the opening of our joint venture Crowne Plaza Hollywood Beach in October 2007, the planned openings of the Sheraton Louisville Riverside in April 2008, and the Crowne Plaza Tampa Westshore in early 2009, and the expected acquisition and reflagging of the Crowne Plaza Hampton, Virginia in the second quarter of 2008, we believe our company is poised for significant growth. We continue to source attractive lodging acquisition opportunities as cap rates begin an upward climb and asset pricing moderates. As part of our investment mantra we will maintain a disciplined and highly selective investment strategy as we seek out markets that are synergistic with our existing portfolio.

Looking ahead to 2008 and beyond, we have established the following goals to drive continued growth and build value for our shareholders:

- » In terms of performance we have raised guidance targets to \$1.02-\$1.12 for 2008. We also reaffirm our commitment to pay an above market dividend.
- » Regarding portfolio initiatives, we will continue to seek well-located under performing hotel assets, while maintaining a disciplined approach. In 2008 we plan to acquire at least one hotel for our own account and one hotel through our Carlyle joint venture.
- » We will continue to seek out additional sources of equity to enhance the company's financial position and performance.

In 2007 the results of our prior period efforts since our IPO began to benefit the company. We delivered solid operating results while accelerating growth. Room sales and total sales increased 49.2% and 48.7%, respectively, in 2007 versus the 12 month period in 2004. RevPAR has increased over 27.1% during that three year timeframe. Since 2004 the market value of our assets has grown by 151.4% and the equity in the company as measured by net asset value has grown by 128.3%.

We believe we are well-positioned for continued and accelerating growth. And as managers of our shareholders' capital we remain committed to building long-term value. We pursue this endeavor being mindful of the original cornerstones of our company: hospitality, value and opportunity. On behalf of our senior management team, I want to thank our shareholders, Board of Directors, and employees for their continued support. We look forward to another successful year in 2008.

Sincerely,

Andrew M. Sims
Chairman and CEO
MHI Hospitality Corporation



CORPORATE PROFILE

BOARD OF DIRECTORS



Andrew M. Sims,
President, CEO, Chairman of
the Board



General Anthony C. Zinni (USMC
Ret.), Director



J. Paul Carey, Director



Edward S. Stein, Director



Christopher L. Sims, Director



Kim E. Sims, Director



James P. O'Hanlon, Director

OFFICERS



Andrew M. Sims,
President, CEO



William J. Zaiter,
Executive Vice President, CFO



David R. Folsom,
Executive Vice President, COO



Julia F. Connolly,
Vice President,
Chief Compliance Officer



Anthony E. Domalski,
Vice President,
Chief Accounting Officer

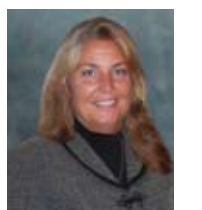
EXECUTIVE STAFF



Diana D. Johnson,
Director of Investor Relations



Scott M. Kucinski,
Director of Construction Services



Rhonda L. Smith,
Executive Assistant

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MHI News of Note

* S&P Launches Coverage

Standard & Poor's has launched independent equity research coverage on MHI. S&P is preparing an in-depth Stock Report on the Company which will be delivered to targeted institutional and retail investors, as well as research and financial portals. The S&P report will also be posted on our web site and updated weekly.

* 1st Green Hotel

The Crowne Plaza Jacksonville Riverfront is the first hotel in the City of Jacksonville and Duval County to participate in Florida's Green Lodging Program. The hotel was recognized by the Florida Department of Environmental Protection in 2007 for its commitment to conserve and protect the state's natural resources. A number of conservation practices have been put in place at our Crowne Plaza Jacksonville asset. These include an extensive recycling and reuse program, motion sensitive thermostats, environmentally smart cleaning products and hotel lighting that saves electrical use by nearly 75 percent. In addition to being environmentally forward as well as cost efficient, with Governor Crist's mandate that state agencies convene only at Green Lodging hotels starting January 1, 2008, these practices should enhance business opportunities.

* Laurel Hotel Wins Renovation Award

The Holiday Inn Laurel West has received a Renovation Award from InterContinental Hotels Group for completing a major repositioning to enhance guest experience. Beginning in 2005 we redesigned the public space of this full service hotel on the Washington, DC-Baltimore corridor. We also modernized over 200 guest rooms and 6,600 square feet of meeting space. And we brought in popular Outback Steakhouse as well as The Atrium Café. Add to this the hotel's business center, 24-hour fitness facility and indoor pool and the Holiday Inn Laurel West adds real value and long-term potential to our portfolio.

* Invest in MHI

Did you know we offer an Investors Choice Plan? Our Plan provides a convenient and affordable way to build your investment in MHI or start a new one. Existing shareholders can purchase additional shares at any time starting at \$25. Interested new investors can invest for as little as \$250. You can also arrange for automatic monthly investments. For more information contact American Stock & Transfer Company (www.amstock.com; 866-668-8553) or visit www.mhihospitality.com.

