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www.mhihospitality.com

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



Building Value Longer Term

Hospitality. Value. Opportunity.

PORTFOLIO



Hilton Savannah DeSoto,
Savannah, GA



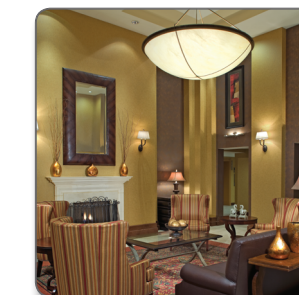
Hilton Philadelphia Airport,
Philadelphia, PA



Hilton Wilmington Riverside,
Wilmington, NC



Crowne Plaza Jacksonville Riverfront,
Jacksonville, FL



Holiday Inn Laurel West,
Laurel, MD



Sheraton Louisville Riverside,
Jeffersonville, IN



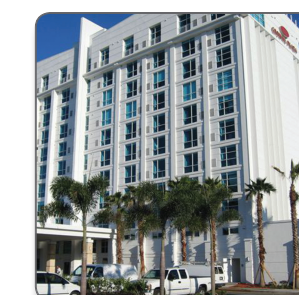
Holiday Inn Brownstone,
Raleigh, NC



Crowne Plaza Hampton Marina,
Hampton, VA



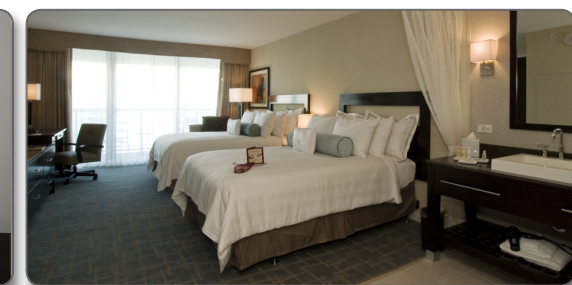
Shell Island Resort,
Wrightsville Beach, NC



Crowne Plaza Tampa Westshore,
Tampa, FL



A 2008 Renovation Award Winner
 awarded by InterContinental Hotels Group
 Crowne Plaza Hollywood Beach Resort, Hollywood Beach, FL



2008 Annual Report to Stockholders

To Our Stockholders:

In the face of a historically challenging global economy, we have remained focused on the fundamentals of our business: that of building a portfolio of well-located and in-demand hotel assets. The year 2008 was clearly formidable in that industries across the board, including hospitality, were impacted by a deeply troubled economy. However, 2008 was also transformative for our company in that we substantially completed the value enhancement plan for our real estate platform. In 2008 we also capitalized on the means to strengthen the company and our competitiveness. Highlights include:



- » We bolstered our market presence in the Mid-Atlantic and increased our asset base with the acquisition of a full-service waterfront hotel in Hampton, Virginia.
- » We completed \$44.4 million of improvements across the portfolio that significantly upgraded the quality and appeal of these assets.
- » We restructured the mortgage on our Hollywood, Florida joint venture property on favorable terms.
- » We increased the company's credit line to its full capacity at \$80.0 million.
- » We moved to the NASDAQ® stock market (Nasdaq:MDH): a natural progression in our company's evolution and growth that should enhance liquidity and visibility with investors.

When taken with the repositioning efforts that we accomplished in 2006 and 2007, we have now completed 90 percent of major renovations at our hotel assets as well as relicensed these properties with our franchise partners. Looking ahead, we believe our real estate product is well-positioned to compete.

Prime Portfolio

Turning to our specific work efforts, in April 2008 we acquired for \$7.8 million a 172-room hotel property in Hampton, Virginia. The Crowne Plaza Hampton Marina is located on 3.5 acres and is central to local businesses and military as well as tourist and historic attractions. We have since completed a \$9.0 million refinancing and renovated the property in line with its Crowne Plaza upbranding. I am also pleased to report that in October we received the Stakeholder of the Year Award from the Downtown Hampton Development Partnership in recognition of our contributions with the Crowne Plaza Hampton Marina to the city's revitalization.

Significant improvements were also completed at our other hotels. At the Hilton Wilmington Riverside, we executed an \$11.9 million product improvement plan, which was finished last April. The hotel now showcases the first Ruth's Chris Steakhouse on the Carolina seaboard. The Sheraton Louisville Riverside opened in May following a \$16.8 million renovation. This is our first franchise with Starwood Hotels & Resorts and the only Starwood branded hotel in the Louisville, Kentucky region.

An \$11.0 million renovation and product improvement plan was put into effect at the Hilton Savannah DeSoto during 2008 and was completed in February 2009. At the Crowne Plaza Tampa Westshore, a \$33.1 million 16-month deep turn renovation also took place, with the hotel opening in March 2009.

In September 2008, we received two prestigious awards for our repositioning efforts from InterContinental Hotels Group. The company was recognized as Developer of the Year for renovations at the Crowne Plaza Hollywood Beach Resort and the Crowne Plaza Tampa Westshore. The Hollywood project also was awarded the 2008 Renovation Award.

Financial Positioning

In 2008 we took effective actions to fortify our financial position. We negotiated improved terms on our credit line, increasing our borrowing capacity by over 33% to \$80.0 million. This enhanced capacity provided us with better means to accomplish portfolio improvements during the year and also put in place a valuable liquidity cushion. We also restructured the mortgage on our Crowne Plaza Hollywood asset, which we own through our joint venture with The Carlyle Group. The resulting modified financing has more favorable terms for the company.

As overall market conditions continued to deteriorate during the year, we took steps to further reduce expenses. On an asset level, we worked with our management company to implement significant reductions in operating expenses at our hotels. On the corporate level, we consolidated certain responsibilities to eliminate a full-time position and we restricted 2008 bonus payments.

At the end of 2008, due to declining economic trends expected through 2009, we amended the distribution policy. In February 2009, we entered into an amendment to our credit agreement with a syndicate of banks which imposes certain restrictions on the payment of dividends, but generally permits us to pay that level of dividends necessary to maintain REIT status. Accordingly, we estimate that the annualized dividend payout for 2009 will be approximately \$0.18 per share.

Building Value Longer Term

The unsettled economy dampened consumer travel and spending in 2008 which, in turn, affected the lodging industry across all U.S. markets. This, along with the significant proportion of our portfolio in planned repositioning, negatively impacted our performance for the year. Although we believe the recovery of the markets is still some way off, we are confident that our newly repositioned portfolio of lodging assets will perform competitively when it occurs.

Today, our portfolio is comprised of six InterContinental Hotels Group properties, three hotels flagged with Hilton, and one asset that is part of the Starwood family of brands. All of our hotels are centered within dynamic tourist and entertainment destinations. These properties provide full-service amenities to the group, corporate and leisure segments – all of which are increasingly focused on value.

Today, nearly all portfolio renovations have been completed. Our hotels have been modernized and are open and poised to gain increasing market share. We are already witnessing this at the Sheraton Louisville Riverside, the Crowne Plaza Hampton Marina, the Hilton Wilmington Riverside and the Crowne Plaza Hollywood Beach Resort. Looking ahead, we expect that the newly renovated Hilton Savannah DeSoto and Crowne Plaza Tampa Westshore also will draw positive consumer responses in their respective markets.

There's no doubt that the economic environment remains very challenging. However, it's important to recognize the progress, which is measurable, that we have made since our IPO over four years ago. Since that time the market value of our assets has grown by approximately 169%. The equity in our company as measured by net asset value has grown by approximately 60%. We believe our business model is sound and the end result of our significant repositioning efforts will be stronger operating results and increased long-term value for investors.

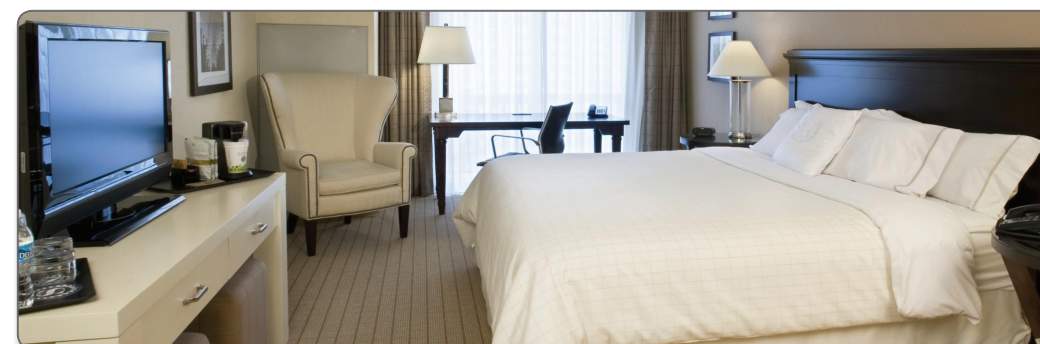
To that end, we have established the following objectives for 2009:

- » To proactively seek out additional sources of equity to further strengthen our financial position;
- » To control expenses at both the corporate and asset levels;
- » To maintain an annual dividend distribution level at 90 percent of taxable income, consistent with maintaining REIT status; and
- » To maximize our asset marketing efforts by ramping up operations at our newly renovated hotels as quickly as possible in an effort to take increasing market share from our competitors.

We pursue these objectives ever mindful of the cornerstones of our company originally put in place over 50 years ago: that of hospitality, value and opportunity. We look forward with optimism to a productive year ahead and future for MHI Hospitality Corporation. On behalf of our senior management team, I want to thank our stockholders, Board of Directors, employees and customers for their interest and their continued support.

Sincerely,

Andrew M. Sims
Chairman and CEO
MHI Hospitality Corporation



BOARD OF DIRECTORS



Andrew M. Sims
President
Chief Executive Officer
Chairman of the Board



General Anthony C. Zinni
(USMC Ret.)
Director



J. Paul Carey
Director



Edward S. Stein
Director



James P. O'Hanlon
Director



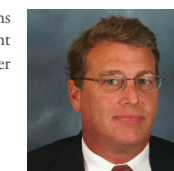
Kim E. Sims
Director



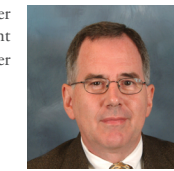
Christopher L. Sims
Director

OFFICERS

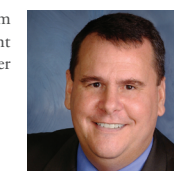
Andrew M. Sims
President
Chief Executive Officer



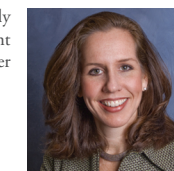
William J. Zaiser
Executive Vice President
Chief Financial Officer



David R. Folsom
Executive Vice President
Chief Operating Officer



Julia F. Connolly
Vice President
Chief Compliance Officer

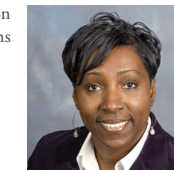


Anthony E. Domalski
Vice President
Chief Accounting Officer

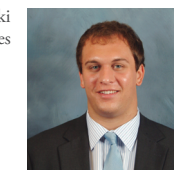


Executive Staff

Diana D. Johnson
Director of Investor Relations



Scott M. Kucinski
Director of Construction Services



Rhonda L. Smith
Executive Assistant



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Web Site

Information on the company's stock price, corporate news, SEC filings, earnings releases and other financial data about MHI Hospitality can be found on the Internet at:

www.mhihospitality.com

Exchange Listings

MHI Hospitality's common shares are listed on the NASDAQ® Stock Market under the symbol MDH.

2008 Awards

InterContinental Hotels Group 2008
Developer of the Year Award - Crowne Plaza

Crowne Plaza Jacksonville Riverfront
InterContinental Hotels Group Brand Citizen Award

Crowne Plaza Hollywood Beach Resort
InterContinental Hotels Group Renovation Award

Crowne Plaza Hampton Marina
Downtown Hampton Development Partnership
Stakeholder of the Year Award



InterContinental Hotels Group 2008 Developer of the Year Award
Crowne Plaza - Andrew Sims