Phoenix Hospitality Opportunity Fund

For Immediate Release

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In response to the current closure of the debt markets for hospitality properties and the potential for a once in a generation acquisition environment, National Lodging & Leisure (NLL) has temporarily suspended its retail capital raising activities and has announced the launch of a new $100 million private equity platform, the Phoenix Hospitality Opportunity Fund.

"*NLL's current strategic focus and approach to hotel acquisition remain the same,*" said Jay Gaydosh, Senior VP and CFO. *"We are simply making adjustments to a traditional capital structure that reflects current market conditions."*

Overview

The effects of the COVID-19 pandemic on the hospitality industry have been severe, with the aftermath beginning to take shape. Where there is volatility, there is a great opportunity, which is the rationale behind launching the Phoenix Hotel Opportunity Fund. We are seeking quality properties in great locations that we can purchase at a substantial discount to replacement cost. We believe the strategy of buying high-quality assets with no debt, at significant discounts to replacement cost, greatly limits downside risk while allowing for significant upside from both cash flow and capital appreciation.

Market conditions require patience and common sense, and NLL's seasoned management team has experienced numerous business cycles and market dislocations before. We are confident that we are heading into one of the most opportunistic acquisition periods in recent history. We believe that the greatest "value creation" in real estate investing happens not when you sell an asset, but when you buy it. For various reasons, high-quality properties will be coming available over the next 18 to 24 months, giving us the opportunity to buy "right" and then implement our best practices strategy which we have successfully implemented over the last 20 years.

Jack Moran, the President, and CEO of NLL, shares that *"In addition to COVID related financial stress, a number of owners of excellent properties, built post-recession, are now facing expensive brand-mandated property improvement plans (PIP's), and many will want to sell their properties rather than refinance or infuse large sums of equity. Also, some owners do not have the skills and experience in managing large-scale PIP projects."*

Our Phoenix Fund will be seeking out not distressed hotels, but rather seasoned premium branded properties from owners motivated to sell for a variety of reasons. These reasons may include

- Expensive brand-mandated updates
- Debt maturity considerations
- Insufficient operating cash flow for debt service

With the debt markets closed and expected to remain so for the next 18 to 24 months, some owners will be forced to sell assets to solve their liquidity and capital needs. And based upon current predictions, an increase in travel should begin in late 2020 and expand over the next 24 months, bringing us back to a more normalized level.

We believe that our size, experience, and focus give us a competitive edge in the acquisition game for our targeted assets. Large institutional fund managers need to buy large portfolios to meet their targeted allocations, but we do not. From experience, we learned that focusing on single acquisitions enables us to be very selective allowing us to buy the right hotel at the correct price.

Strategy

Key points of our extremely focused acquisition strategy are:

- We will be acquiring only seasoned, historically successful premium-branded hotel properties that can, in a normal environment, generate our targeted returns. NLL is concentrating exclusively on upper midscale brands from Marriott, Hilton, and InterContinental Hotel Group (IHG). Examples of these best-in-class brands include Fairfield Inn, Hampton Inn, Holiday Inn Express, Residence Inn, Homewood Suites, and Staybridge Suites.
- Focusing on the southeast region of the United States, with primary emphasis on Florida, – one of the nation's most desirable hospitality markets. Specific emphasis will be placed on second-tier and tertiary markets in Southwest Florida, including Clearwater, St. Petersburg, Sarasota, Venice, Ft. Myers/Bonita Springs, and Naples along with major college towns like Gainesville and Tallahassee.
- Avoiding construction and development risks of new, ground-up projects. There is no reason to consider new builds when great existing properties can be acquired for less than replacement cost.
- Acquiring properties that will eventually qualify for the long-term, fixed-rate, non-recourse debt at competitive rates when capital markets reopen.
- Identifying properties that have the strongest elements for stability, increasing cash flows, and capital appreciation.
- Considering the lack of senior debt for the near term, the Phoenix Fund will be an *all-cash buyer*. Once the debt markets return, new non-recourse debt will be placed on the properties and a *substantial portion of the initial cash invested will be returned to the investors*. Because we will be purchasing properties on an all-cash basis, the Phoenix Fund will be able to move rapidly on opportunities and will have a considerable advantage over other competitors.

- Given the absence of debt for hotel properties, we will also very selectively look at opportunities to purchase discounted first mortgage loans on properties that meet our selection criteria.
- We have recently witnessed properties coming to market with a requirement of "Proof of Funds" meaning the seller wants to be assured that the buyer has the capacity to close on the acquisition. Given that the real estate debt capital markets are essentially closed, this requirement is realistically a "Cash at Closing" clause which, given our all-cash strategy, increases our chances to win the acquisition.
- NLL's acquisition team will continue to work its established network of hotel brokers and owners seeking out potential acquisitions, including off-market properties.

Funding, Exit Strategy & Waterfall

NLL is seeking commitments for $100 million for the initial acquisitions by the fund. We believe the initial funding will be adequate for the acquisition of five to six hotels. The minimum investment is $100,000, and all individual investors must certify they are accredited. As previously mentioned, fund properties will be acquired on an all-cash basis and operated on a short-term basis free and clear of debt. Once the capital markets reopen for hospitality properties, NLL will secure senior, fixed-rate, non-recourse debt based on conservative debt coverage ratios. The loan terms will be for a maximum of 5 years. The projected holding period for these properties will be 6-7 years.

Cash distributions, which shall be made quarterly, will be prioritized so that equity investors will receive 90% of all cash distributions, with the remaining 10% of the cash distributions paid to an affiliate of the Sponsor. Upon securing senior debt for each property, cash distributions will continue to be paid quarterly and will be prioritized as follows: a) an 8% preferred return will be paid first on the outstanding balance of the investors remaining investment, then b) the investors will receive 70% of the remaining cash distributions, with the remaining 30% paid to an affiliate of the Sponsor.

Expected Returns

Given the hybrid nature of the investment structure, we believe each phase of the investment needs to be reviewed separately. In the initial "no debt" acquisition phase, *the expected initial annualized return will be 4% to 6% and should be benchmarked against a bond-equivalent return. In phase two, the expected IRR, with leverage, is 18% to 22%, comprised of a preferred 8% coupon and capital appreciation*. It should be noted that these projections are based upon a potential acquisition we are currently analyzing.

Sponsor

National Lodging & Leisure has assembled an extremely experienced management team with more than 175 years of collective experience in commercial investment properties, development, capital markets, construction, and management of hotel properties all of whose bios and backgrounds can be found here.