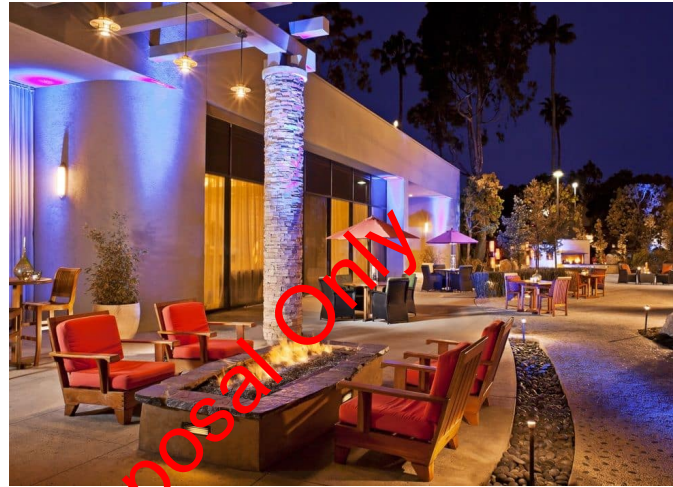




HOSPITALITY ASSET MANAGEMENT
SAMPLE SERVICES PROPOSAL
May, 2023



INTRODUCTION

ARHospitality Capital is (“ARH”) honored to be considered for engagement to provide hotel asset management services. The [____] (“Hotel”) consisting of [__] rooms, [bar, restaurant, event & banquet facilities and additional retail tenants, is one of the leading hospitality properties in Los Angeles’ ____] market. The Hotel benefits from a diverse guest clientele including business, group and leisure travelers while its restaurant, [____] and Starbucks are frequent destinations for the surrounding residents. ARH has extensive experience managing every facet of large, complex hospitality assets similar to the Hotel and a legacy of innovative strategies to enhance assets’ revenue potential, elevate the guest experience and outperform our partners’ expectations.

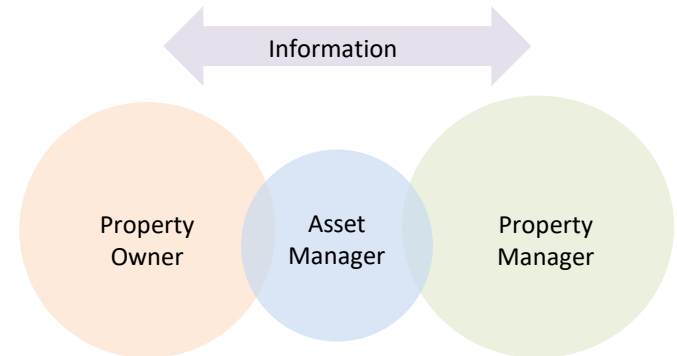
ASSET MANAGEMENT

• **WHAT IS IT?** The three intersecting circles in the diagram to the right depict how the Owner, Asset Manager, and Property Manager relate to each other. The Asset Manager sits in the middle, acting as a conduit between the Property Owner and the Property Manager. All communication to the Owner flows through and is evaluated, verified, challenged and further developed by the Asset Manager. While the Property Manager is charged with running the asset day-to-day, the Asset Manager is charged with working with the Owner to define the Hotel’s business plan and overseeing the Property Manager’s operational execution of the business plan.

• **WHAT DO WE DO?** The Asset Manager’s role can be divided into two sides of the same coin: (A) overseeing the physical asset and that its operations are consistent with the business plan and (B) managing the non-operational elements necessary to attain the investment objective. Each role can be further broken down into five specific areas discussed in more detail under Role & Responsibilities of the Asset Manager.

• **WHAT ARE THE FOUR PHASES OF THE ASSET MANAGEMENT PROCESS?** It starts with determining the Owner’s objectives for the asset. Next, the asset is acquired and integrated into the Owner’s systems. Third, consists of ongoing monitoring the performance of the asset. Lastly, the Asset Manager facilitates the disposition of the investment and transfer of ownership in an orderly fashion. These four phases are expanded upon in The Asset Management Process (page 3).

• **WHAT ARE THE COMPONENTS OF AN ASSET MANAGEMENT PLAN?** – The Asset Management Plan is developed collaboratively by the Owners and Asset Manager and serves as the blueprint for realizing the investment objectives. A thorough Asset Management Plan provides the context and framework for understanding the Hotel as it moves through both its asset and market lifecycles. The Plan frames the questions to be addressed and defines an agreed upon methodology by which to analyze and respond to asset issues throughout the ownership period. We outline the key components of our Asset Management Plan on page 5.



FOUR PHASES OF OUR ASSET MANAGEMENT PROCESS

I. DETERMINING THE OWNER'S OBJECTIVES

- Establishing the Owner's investment horizon and preference between income and capital appreciation
- Defining the Owner's risk tolerance relative to operational and financing strategy
- Understanding other factors influencing Owner's investment thesis such as tax, interest rate and foreign exchange views
- Prioritizing non-economic reason to own the asset, i.e. lifestyle, product placement, corporate branding, event hosting, etc.

II. ACQUISITION, ORIENTATION AND INTEGRATION

- ARH ideally is brought into the process before the Owner decides to acquire an asset to assist with pre-acquisition due diligence and business plan formation, investment feasibility recommendations, and supporting Owner's transaction team
- We assist in identifying strategic considerations, such as highest and best use, and tactical considerations such as maximizing ROI on capital expenditures and franchisor Product Improvement Plans ("PIPs")
- Orientation focuses on providing an assessment of past performance and guide for future improvement consistent with Owner's portfolio strategy
- Integration focuses on leveraging any operational efficiencies Ownership or ARH may have through economies of scale and 3rd party relationships, i.e. GPO contracts, insurance program integration, sales & marketing programs, etc. We also create communications protocols for the content and timing of financial reporting.

III. MONITORING PERFORMANCE

- This is the most significant component of effective asset management and involves the two primary areas of oversight – the physical asset and Owner's investment objectives as discussed in more detail on the following page 4.

IV. DISPOSITION & OWNERSHIP TRANSFER

- ARH recommends to Ownership how best to position the asset for sale. For instance should the asset be sold unencumbered by the Property Management contract, should any vacant retail spaces be leased up or left vacant for new ownership to have greater flexibility in defining their asset strategy, should a PIP be completed prior to bringing the asset to market or deferred to new ownership, are there seasonal or idiosyncratic impacts on asset performance that should inform timing of sale.
- We assemble all of the relevant documents and operating information that will be needed to market the property
- Support or lead responses to prospective buyer specific inquiries on the asset's physical or financial performance or other market related questions.
- Lastly we validate the proration of forward booked rooms and other deposits already received as well as prepaid expenses to make the appropriate adjustments between buyer and seller; support or lead communication with lenders on satisfaction at closing of outstanding debt and intermediate with the franchisor on franchise license transfer, lender comfort letters, PIP requests, etc.

ROLE & RESPONSIBILITIES OF ARHHOSPITALITY

OVERSEEING THE PHYSICAL ASSET

- I. **Monitor Ongoing Financial Performance:** Review actual financial performance against both budget, prior years and comparable properties, complete variance analysis, identify issues and propose solutions.
- II. **Monitor the Competitive Market:** Track occupancy and average rate trends, monitor new properties being considered for development and changes in room night demand generators, develop responsive strategies to mitigate negative impacts on property revenues.
- III. **Monitor the Asset:** Evaluate the physical condition of the Hotel and work with Property Manager to anticipate capital requirements to maintain the assets competitiveness and market position. Ensure Property Manager's legal compliance with governmental regulations and brand requirements.
- IV. **Support & Review Budgeting Process:** Validate and challenge the Property Manager's proposed budget, benchmark against comparable properties, review ROI of marketing and CAPEX plans for compliance with Owner's expectations. Facilitate the approval of budgets by Owner and Lenders.
- V. **Advise on Property Manager Issues:** Evaluate the strengths and weaknesses of the Property Manager, make recommendations as to key position hires/fires (GM, Dir. Of Sales, Dir. Of F&B, etc.). Review and validate Property Manager's attainment of any Incentive Management Fees.

MANAGING THE INVESTMENT

- I. **Optimize the Investment Strategy:** Complete annual strategic review comparing performance to investment objectives including current market value future value from holding, renovating, rebranding, and other strategic alternatives.
- II. **Monitor the Investment Community:** Track sales trends for comparable assets, capitalization rates changes, and keep Owners appraised of changes in financing terms.

- III. **Oversee Key Asset Stakeholders:** The Asset Manager advises Ownership on appropriate franchise/brand affiliation and 3rd party Property Management performance and also recommends engaging strategic consultants as appropriate.
- IV. **Negotiate and Administer Key Contracts:** While the Property Manager will engage vendors and service providers, the Asset Manager is responsible for ensuring a competitive selection process was undertaken, reviewing material long term contracts, and implementing independent compliance and controls to reduce financial risk through loss.
- V. **Manage Capital Sources & Uses:** The Asset Manager will advise on the optimal sources of capital and their uses for enhancing the value of the asset and investment performance. Sources of capital include reinvestment of NOI, Owner's equity or financing. Uses primarily focus on Capital Expenditure programs.



ELEMENTS OF AN ARH ASSET MANAGEMENT PLAN

Working closely with the Owners and upon defining their objectives we will create an Asset Management Plan that typically includes the following elements:

- I. **Property Summary:** Through direct asset inspection, public document review, analysis of engineering, environmental, zoning and franchisor reports, a detailed summary of the physical asset is produced.
- II. **Executive Summary:** Highlights the key objectives of Ownership and significant challenges to be addressed through strategy implementation. We also identify the key stakeholders that will be integral to a successful outcome.
- III. **SWOT Analysis:** A detail review of the identified asset Strengths, Weaknesses, Opportunities and Threats and long term strategy addressing each.
- IV. **Major Plans and Actions:** ARH identifies the immediate 12-18 month action items and critical path to achieving the objectives while also beginning to shape prioritization for intermediate and longer term value enhancement plans.
- V. **Exit Strategy:** We will define the expected hold period, most likely type of buyer (REIT, C-Corp, private equity fund, high net worth individual), key hold vs sell factors based on asset and market cycles.
- VI. **Compilation of Supporting Data:**
 - Market statistical analysis, including demographic and supply/demand trends
 - Current competitive supply review including STR Report benchmarking
 - Historical financial performance and Financial KPIs
 - Capital expenditure history and 10 year capital plan informed by MEP, OSE, FF&E remaining useful life analysis
 - F&B Financial & KPI reporting and metric development
 - Key controlling agreement abstracts (leases, vendor agreements, 3rd party management agreements)



XYZ MARRIOTT ASSET STATUS REPORT

To: Ownership

From: ARHospitality Capital

RE: First Quarter Asset Status Report

Date: April 20, 2019

The periodic Asset Status Report (ASR) is produced typically on a quarterly or semi-annual basis for Ownership. It addresses each of the areas of the Asset Management Plan including goals achieved, challenges encountered and issues requiring Owner consideration and direction.

It provides a comparative analysis of where the property is relative to the defined business plan, highlights critical path items in the next reporting period and makes recommendations on key issues.

The ASR also serves as a historical narrative for the property's operation, capital initiatives and market changes.

ENGAGEMENT TERMS

- Asset Management Agreement between Owners and ARH (a form agreement is available upon request),
- Typically commences 30-45 days prior to closing on acquisition of asset to provide sufficient time for development of the Asset Management Plan and preparation for asset handover. For a development project, an engagement may commence much earlier at the project feasibility stage.
- Initial Term of 1 Year with annual renewal upon agreement of the parties.
- No termination right by Owner in first year except for cause, 60 day termination right by Ownership or Manager thereafter.

TYPICAL COMPENSATION STRUCTURE

- Pre-Acquisition Technical Services at Owner's option for a flat monthly fee to be determined based on ARH's evaluation of the property and scope of services requested
- Base Asset Management Fee of up to 1% of Gross Revenue excluding third party space lease rent payable in arrears monthly
- Depending on Ownership's requirements and scope of asset strategic plan, an Incentive Management Fee equal to a percentage of Net Operating Income after Owner has received a Priority Return on its equity of 12% and satisfied all debt service payments.
- Fees accrue to the extent there is insufficient funds from operations to pay any amounts owed when due
- Additional Services fees for performance of services beyond the scope of Asset Management to be compensated separately upon terms agreed to between the parties. For instance capital arranging or asset sale services.

ARHOSPITALITY CAPITAL

ARHospitality Capital is a division of privately held Aberdeen Realty Holdings Ltd, which was established in 2006 to invest in and provide asset management services for the commercial real estate sector. As entrepreneurs with extensive experience in all aspects of hospitality ownership and operation, we understand that there is no substitute for hard work and 1st hand knowledge in this business. We are dedicated to the Hospitality industry and pride ourselves on a our analytically driven fiduciary recommendations, while bringing personal touches and character to all of our projects.

The ARH difference is the diversity of our experience and development in the operations, design, legal and finance field of the hospitality industry. This diversity of experience is focused around a core and guiding principle - To always think differently, push for the best from our people and properties, and to respect our customer while striving to elevate their experience at each touch point.

Company Facts:

- Advised on, asset managed or financed over \$5B of hospitality real estate assets
- Serving major and secondary US Markets
- Skilled and strategic team including legal and acquisition
- Based out of Southern California
- Specializing in Acquisitions, Repositioning, and Asset Management within the hospitality industry
- Established strategic financing and operating partners

