



Executive Summary

Saltaire's value-add opportunity is to acquire undermanaged independent hotels in well-located, high barrier-to-entry markets in the Northeast. Through its professional management, marketing, and cost-effective design interventions, Saltaire is creating a portfolio of institutional-grade hotels generating significant current returns and providing sizable upside potential and yield.

Driving Performance and Valuation Through Professional Management and Marketing

Saltaire's acquisition targets are typically family-owned, dated, and passively managed hotels that utilize non-industry-standard practices and record keeping as well as outdated marketing techniques. The inability of the owners/sellers of these properties to provide industry-standard reporting excludes a significant percentage of potential buyers, which allows Saltaire to acquire these properties at favorable cap rates. Saltaire then introduces industry-standard practices, including professional management, accounting, reporting, and digital marketing that enhance the fundamental metrics by which the property is valued. This strategy results in lowered cap rates and transforms the property into an institutional-grade asset while also improving current yield by driving rate and occupancy. Concurrently, as Saltaire creates a portfolio of similarly

branded hotels, it further enhances fundamental valuations by creating critical mass, associated efficiencies (for example: sharing a common branding and marketing team), and the ability to further drive rate and occupancy through cross-selling and cross-promotion.

Sense of Place, Efficiently Executed Design Interventions

Increasingly, travelers are seeking lodging that authentically reflects and is integral to the local scene. Through Saltaire's demonstrated development and design expertise, Saltaire inexpensively and efficiently repositions its acquisitions to provide a modern guest experience combined with an authentic sense of place. While some properties may include a Food and Beverage (F&B) component as an amenity and important part of the guest experience, Saltaire never underwrites to rely on F&B as a profit center.

Saltaire's design interventions—which typically focus on local culture, including displaying local art at the property, and the creation of a relaxed yet comfortable ambiance—are achieved primarily through interior design, landscaping, FFE (furniture, fixtures and equipment), including top quality bedding, and lighting, technological upgrades including fast Wi-Fi, USB ports, complimentary digital access to news sources, and greening initiatives (for example: LED lighting and water conservation measures).

Scalability

Saltaire's pipeline and track record demonstrates its ability to consistently source well located, off-market or under-marketed value-add properties. To date Saltaire has successfully executed this strategy with four hotels utilizing friends and family equity capital. We are looking to establish new equity relationships to allow for additional and larger acquisitions.

Saltaire's current focus is on the Northeast, and in particular on high barrier-to-entry areas with an affluent, sophisticated demographic, but lacking correspondingly well-designed and managed lodging options. However, throughout the U.S., there is an abundant supply of well-located "front row" hotel properties that are dated and undermanaged, making Saltaire's concept easily scalable. Some of these markets are seasonal, yet have room for growth in occupancy, average daily rate (ADR) and revenue per available room (RevPAR). Saltaire has accounted for seasonality and its impact in both its financial projections and overall business strategy.

Independent Hotels vs. Chain Counterparts

Consumer interest in experiential independent hotels that reflect the local culture is on the rise in part as a consequence of the homogenizing influence of chain hotels. While major brands attempt to establish "soft brands" which mimic the independent hotels' design, the chains cannot escape the burden of costly franchise fees and are not able to deploy capital efficiently, given brand-mandated property improvement programs. At the same time, the Internet has helped level the playing field for independents by lessening the importance of chain recognition, especially for leisure-oriented properties. Review sites such as TripAdvisor give independent hotels a meaningful advantage, as consumers increasingly evaluate hotels based on reviews and social media, and not on chain characteristics.

These factors significantly strengthen the market position of independent hotels. According to Smith Travel Research, the leading global provider of information services and research to the hotel industry, the outlook for independent vs. chain hotels remains strong. Independents have

higher net operating income (NOI), fueled by higher ADR, than their franchise hotel counterparts.

Despite the strong prospects for independent hotels, institutional investors have not caught up with current conditions, and continue to favor chain hotels thereby enhancing Saltaire's opportunity to acquire independent hotels at favorable pricing.

Prospective Investor Returns

Targeted hotel assets can typically be acquired at stabilized capitalization rates of about 10% or better based on prior year's NOI. Debt leverage in normal times is generally available at 70% loan-to-value at interest rates of less than 5%. Initial cash-on-cash yields are forecasted at 8%, stabilizing at 15%, creating average yields over the life of the deal of approximately 12%.

Assuming a conservative exit capitalization rate of 10%, individual project IRRs are forecasted from 18% to 25% over an assumed 5-7 year hold period. Expected equity multiples range from 2-3x over a 5-7 year hold period. Further upside may be achieved through valuation arbitrage inherent in the mom-and-pop to institutional-grade transition that Saltaire will enact as well as the potential premium attached by institutional buyers and/or public markets to an integrated portfolio of assets.

So far, every one of our deals has made money for our investors, and we have never lost a single invested dollar.

Proof of Concept: Harbor Hotel Provincetown

In 2010-2011, Saltaire, in partnership with its equity partner, acquired and completed the repositioning of a 139-room former Holiday Inn, located on a 4.5 acre waterfront site in Provincetown, MA. Several key characteristics made the hotel an ideal candidate for repositioning, and allowed for acquisition at an advantageous price:

- *Front row position in a great market which lacked great lodging.* The hotel is on one of the finest sites within Provincetown, itself one of Cape Cod's most affluent, vibrant, and sophisticated destination resorts, but which inexplicably lacked correspondingly sophisticated experiential lodging options.
- *Passive management.* The property had languished for many years under a passive owner/operator, resulting in incomplete and unprofessional historical financial records, poor online reviews, and a degraded guest experience.
- *Large but non-institutional.* The hotel was too large and expensive for the typical owner/operator buyer, but lacked the reliable historical financials and industry-standard reporting required by institutional buyers.
- *Superb "bones" ripe for low cost but transformative repositioning.* The former Holiday Inn's sleek modernist lines, steel and concrete construction, and expansive waterfront public areas were marred by dated and poorly maintained furnishings and finishes.
- *Poorly marketed.* The owner listed the property for sale with an independent, local residential broker who failed to widely market the property. In addition, an initial inflated asking price dissuaded potential buyers.

Total Transformation at a Low Basis

Saltaire, guiding a carefully selected team of design, construction, and branding professionals, designed and completed the repositioning of the property during the off-season at a cost of \$40 per gross square foot construction costs, \$9,500 per room FFE, and \$315,000 in soft costs including architectural and interior design, branding, and website design. With a total acquisition cost of \$55,063 per room and a total all-in cost of \$86,372 per room, the project was completed at a total basis of less than half of replacement cost in an extremely high barrier-to-entry market.

Saltaire limited its design interventions almost entirely to landscape, lighting, and interior design, and avoided structural alterations or expensive programmatic changes. The design aimed to reveal and optimize the property's crisp, modernist characteristics, while removing awkward and ill-conceived detailing. The interior design's casual seaside modernist mode incorporates local art, including two locally commissioned murals and a rotating exhibit of current and historical works curated by a local gallery owner. On the exterior, Saltaire removed asphalt to create the property's extremely popular signature fire pit lounge (now imitated by several area hotels and restaurants).



Before/after: typical room



Before/after: lobby



Before/after: exterior

Awards and Accolades

In 2011, the hotel re-opened as the Harbor Hotel Provincetown and was named Cape Cod's "Best Boutique Hotel" by Boston Magazine in its annual "Best of Boston" edition, and recognized as a top "Beach Escape" by Travel + Leisure in its 2011 "World's Best Awards" edition, in addition to numerous other press accolades.

Explosive Growth in Revenues

Total revenues in 2011 (a partial year in which the newly repositioned hotel did not re-open until Memorial Day Weekend) were up 24% from the last full year of the seller's ownership. By 2012, revenues were up by 56%, and by 2015, were up 100% relative to the gross revenues under previous ownership, from \$1.6MM to \$3.2MM

Exit

When our investors were ready to exit the deal, we were able to attract – with a quality asset, impressive performance, and detailed, industry standard accounting - an entirely different, institutional class of buyers than would have considered the hotel when we bought it from the owner/operator. After a period of significant interest with multiple suitors, we sold the hotel to a well regarded national owner/operator for \$15.5MM, representing a 6% cap rate on NOI (having bought the hotel at a +/- 10% cap).

Saltaire Team

Development and Sourcing

Saltaire's principals are hotel developers and real estate professionals committed to the tangible success of complex projects. Combined, they have more than 50 years of experience, including hotel design, development, construction, and financing. Their experience in challenging markets (NYC, Boston, Cambridge, Miami and San Francisco) provides a solid basis for their role of developer and investment manager.

Through their broad base of expertise, Saltaire sources niche deals, builds the best teams, and designs compelling development plans. Saltaire's principals execute and manage projects skillfully and efficiently using proactive, detailed financial analysis.

To date, Saltaire's principals have completed a range of projects valued in excess of one billion dollars.

Operations

Saltaire has created a strategic alliance with Charlestowne Hotels, a proven hotel operator of independent hotels. Charlestowne combines a passion for creating distinctive and memorable guest experiences with the ability to drive bottom-line results by growing occupancy and RevPAR, and increasing the properties' values through performance history.

Founded in 1980, Charlestowne Hotels is one of the industry's leading hotel management companies offering innovative proven expertise in hospitality operations, revenue optimization, and financial reporting.

Featuring a diverse portfolio of more than 30 hotels in 14 states, Charlestowne Hotels consistently delivers high returns to clients through superior market penetration. Its unique branding process, based upon rigorous market research, paves the way for each hotel's identity and value proposition, which is projected through all available media and distribution channels.

Charlestowne implements a high-touch operations management style and guest service program resulting in stellar online reviews and rankings, which translates into pricing power and tangible revenue results. The use of advanced online accounting and cost control procedures to manage operating expenses assures an optimal flow through of revenues to render an impressive NOI.

The company's depth of knowledge and appreciation for distinctive hotels in highly competitive markets generates a creative, yet methodical, approach to pricing and marketing the asset. The team's forethought and understanding of trends within the industry guides the process by which hotel owners obtain maximum value in their investment.

Branding and Marketing

While each hotel must maintain its individual character, the Saltaire portfolio as a whole must speak with one voice. Saltaire achieves this through a common branding and marketing team.

Tambourine

When we started back in 1984, travel marketing was much simpler. (Remember those big, glossy brochures and colorful posters in travel agent windows?) But over the years, our clients' needs changed quickly... and radically. They were besieged by an endless stream of diverse channels and complex technology. And they had to deal with dozens of different companies to compete in this challenging, new marketplace. Why couldn't one company make things easier and less stressful?

Today, Tambourine exists to help hotel and travel marketers sort it all out. We deliver a proven, 360° program that reduces your stress and increases your revenues. We're the one marketing vendor you can rely on to handle everything... so you can focus on your business

Hamilton Hughes Design

Hamilton Hughes Design (HHD) was founded in 1998 with a simple goal in mind: to create great communications materials for clients doing their part to make the world a better place. HHD creates memorable, custom-tailored branding and communications materials for a range of clients demanding authentic, individualized brand voices.

Long-term strategy

Saltaire's business model will allow the company to accomplish its three primary objectives: (i) convert a collection of individual, unprofessionally managed and poorly marketed hotels into a portfolio of hotels consistently and professionally managed and marketed according to the highest industry standards, (ii) create a portfolio of hotels offering the authenticity and experiential attributes increasingly demanded by today's guests, under an umbrella of consistent branding, quality, and cross-promotion, and (iii) generate consistent revenues, strong stabilized cash flow, and significantly enhanced valuation metrics.

As an example of value creation employing a similar strategy, Joie de Vivre Hospitality (JDV) amassed a portfolio of experiential, repositioned motel and hotel properties on the West Coast and as a result became a highly attractive acquisition target. In 2010 Geolo Capital, the private equity firm founded by Hyatt Hotels heir John Pritzker, purchased a majority stake in JDV. A \$150 million fund to acquire additional hotels was established as part of the deal with plans to acquire \$300 to \$500 million in hotels over a three to five-year period.

Saltaire's business model has not been executed at any scale on the East Coast, despite the strong demographics and abundance of target markets and properties. Individual efforts involving the repositioning of mainly smaller, formerly owner-managed hotels have been made and generally well received. Any expansion of these efforts has been constrained by a lack of capital. As consumer interest in authenticity and experience continues to increase, and as the prospects for independent hotels expand, Saltaire sees the opportunity to create significant value through the execution of a well-capitalized business plan which transforms underperforming, owner-managed hotels into the professionally managed, experiential hotels increasingly sought out by today's travelers.

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