

INVESTMENT MEMORANDUM

Prepared by Levente Szabo

The Miami Beach Hotel Arbitrage

A Portfolio Strategy to Capitalize on Market Dislocation

I. Executive Report

This memorandum presents a compelling, signal-driven opportunity to generate significant alpha through the acquisition and strategic repositioning of a five-hotel, 356-key portfolio in Miami Beach. The strategy is projected to deliver a **26.5% levered IRR** and a **2.85x Equity Multiple** over a five-year hold.

This opportunity is not based on broad market timing; it was identified by applying a proprietary data science methodology to uncover a deep operational fissure that is invisible to traditional financial analysis. Our core alpha-generating thesis stems from two primary signals:

- **Quantified "Crisis of Competence":** We synthesized and analyzed thousands of real-time guest reviews for Miami Beach hotels, revealing a quantifiable "crisis of competence." High-frequency keywords like "broken A/C," "mold," "no WiFi," and "scam" are concentrated in a specific cohort of 3-to-4-star assets. This data provides empirical evidence that a significant portion of the market is failing on the most basic elements of hospitality, creating an underserved segment of "Reliability-Seeking" travelers.
- **The "Ghost Hotel" Implosion (Management Arbitrage):** We identified a systemic failure within a new class of tech-reliant, low-touch operators, most notably Sonder (NASDAQ: SOND) and LuxUrban (NASDAQ: LUXH). Their asset-light models are imploding under the pressure of a high-touch market. This thesis is triangulated by a powerful convergence of data:
 - Guest Experience Collapse: Vitriolic reviews for their properties describe "ghost hotel" experiences with no staff, no security, and last-minute cancellations.
 - Corporate Financial Distress: This operational failure is mirrored by corporate instability, evidenced by Sonder's multiple Nasdaq deficiency notices for failure to file financial reports and LuxUrban's stream of SEC filings announcing auditor changes and lease terminations.
 - Landlord-Tenant Conflict: This distress has culminated in legal action, including an eviction lawsuit against LuxUrban by the owner of one of our target assets, The Astor.

Our strategy is to directly exploit this dislocation. We will acquire these distressed assets at a significant discount and install best-in-class, high-touch management under a new "Reliability" brand engineered to monetize competence.

This value-add plan is powerfully amplified by a structural tailwind: the City of Miami Beach's

Ordinance 2025-4717, which creates a government-enforced barrier to entry by severely restricting new hotel development. This regulatory moat creates a "scarcity multiplier effect," insulating the portfolio from future competition and enhancing its terminal value.

The strategy demonstrates significant downside protection, generating a 20.4% IRR even in a stressed scenario. Based on the strength of this unique, data-driven analytical edge, we strongly recommend approving the capital allocation

Metric	Portfolio Total	Per Key
I. The Investment		
Aggregate Purchase Price	\$75,000,000	\$210,674
Property Improvement Plan (PIP)	\$10,000,000	\$28,090
Total Project Cost (w/ fees)	\$86,700,000	\$243,539
II. Capital Structure		
Senior Debt (60% LTC)	\$51,811,200	
Total Equity Required	\$34,884,360	
III. The Projected Benefits		
Levered Internal Rate of Return (IRR)	26.50%	
Equity Multiple (EMx)	2.85x	
Average Cash-on-Cash Yield	11.80%	
Unlevered Internal Rate of Return (IRR)	18.20%	
Stabilized Year 3 Cap Rate on Cost	11.20%	
Projected Exit Value (Year 6 @ 6.5% Cap)	~\$322,400,000	~\$905,600

1.1. A Note on Methodology & a Proposal for Partnership

This report itself is a case study. It was conceived and generated by me, Levente Szabo, by applying methodology developed over a career as a data science leader building advanced AI for credit risk and fraud detection. This approach fuses traditional financial modeling with the synthesis of unconventional, real-time data streams—from the sentiment analysis of thousands of guest reviews to pattern recognition in SEC filings and public legal notices. The result is the rapid identification and deep underwriting of alpha-generating opportunities often invisible to conventional analysis.

What this memorandum represents is a repeatable, data-driven engine for generating proprietary, alpha-rich deal flow. My role is to provide the analytical edge that makes these hidden opportunities visible. This fusion of data science and investment acumen represents a durable competitive advantage.

I welcome the opportunity to discuss how we can partner to execute on this strategy and a future pipeline of data-vetted deals. We can run this process for other geographies, asset classes, or distressed cycles.

II. Investment Thesis & Strategic Overview

2.1. The Market Dislocation: A Widening Chasm of Opportunity

The investment thesis is anchored in the exploitation of a significant and growing bifurcation within the Miami Beach hotel market. While top-line performance metrics for Miami-Dade remain robust, they obscure a critical underlying weakness. The market is entering a phase of normalization after years of supercharged, post-pandemic growth. Forecasts from CBRE for 2025 project modest overall RevPAR growth of just 0.8%, driven by a 0.2% increase in occupancy and a 0.6% rise in ADR.⁵ This shift from pure rate-driven growth to a more occupancy-driven model signals a fiercely competitive environment where operational excellence becomes paramount.

In this new landscape, undercapitalized and poorly managed hotels in the 3 to 4-star segment are being squeezed. They can no longer rely on the rising tide of tourism to lift all boats. As luxury hotels moderate their rates to maintain occupancy, the value proposition of these mid-tier properties erodes, exposing their deficiencies. This dynamic creates a clear opportunity to acquire these pressured assets at a significant discount to their intrinsic value and replacement cost. The provided ground-truth review data confirms this fissure, revealing a clear divide between competently managed hotels and a large cohort of assets defined by chronic operational failure, deferred maintenance, and collapsing guest sentiment.¹

2.2. The "Reliability" Alpha: Meeting an Unserved Need

The core of the value-creation strategy is to reposition the acquired portfolio under a single, new brand identity built entirely around a promise the market is failing to deliver: **Reliability**. Analysis of broader consumer travel trends for 2025 indicates a significant shift in traveler priorities. While travelers are willing to spend more on comfort and premium experiences, this is increasingly defined not by opulence but by seamless, stress-free execution.⁷ This "soft adventure" and wellness-focused traveler seeks rejuvenation and bespoke experiences, which are fundamentally impossible when basic services fail.⁸

This is precisely where a large segment of the Miami Beach market is failing. Our proprietary analysis of guest reviews reveals a quantifiable crisis of competence. For our target assets, reviews are replete with high-frequency keywords like "broken A/C," "no WiFi," "dirty," "mold," and "scam".¹ For example, a guest at the Z Ocean Hotel reported a building-wide A/C failure with no resolution¹, while a guest at the James Hotel described a room with "hairs everywhere" and an "awful mattress".¹ These are not minor inconveniences; they are catastrophic failures of the basic hospitality promise.

This creates a powerful arbitrage opportunity. For the growing "Reliability-Seeking" demographic—including high-value international visitors, families, and business travelers who have been burned by these experiences—the guarantee of a clean room, functional amenities, and competent, on-site staff is, in itself, a luxury worth a premium. Our "Reliability" brand is not designed to compete with the Faena on opulence; it is engineered to create a new, defensible market category by monetizing competence in a sea of incompetence. By systematically addressing the most common and damaging guest complaints, we will capture a loyal and underserved customer base, enabling the portfolio to achieve superior RevPAR and sustained profitability.

2.3. The Regulatory Moat: Ordinance 2025-4717

A pivotal legislative change has fundamentally altered the long-term supply-demand dynamics of the Miami Beach hotel market, creating a structural tailwind for this investment. In February 2025, the City of Miami Beach passed Ordinance 2025-4717, which now requires a 5/7 supermajority vote from the City Commission to approve any new hotel development on non-waterfront parcels.¹ The ordinance's explicit purpose is to curb the growth of transient lodging and encourage the development of permanent residential housing to address a decade-long decline in the city's full-time resident population.¹ The ordinance also increases the minimum hotel unit size to a uniform 335 square feet and removes previous allowances for

"micro-hotels," making new mid-scale development significantly more costly and challenging.²

This legislation functions as a government-enforced barrier to entry, creating a powerful regulatory moat that insulates existing assets from future competition. This is particularly impactful in the South Beach submarket, where our target assets are located, as these areas are predominantly non-waterfront and fall under the new, stricter requirements. This artificial constraint on supply occurs against a backdrop of powerful, sustained demand growth, driven by a rebound in international tourism and major upcoming events like the 2026 FIFA World Cup.⁴

The long-term financial implication of this dynamic is a "scarcity multiplier effect" on the portfolio's terminal value. As demand outpaces the constrained supply, existing, well-positioned hotels will command greater pricing power and achieve higher, more stable occupancy rates. When modeling our exit in Year 5 or 7, the pool of potential institutional buyers (such as Blackstone or Starwood Capital, who are active in the market ¹¹) will not merely be acquiring stabilized, cash-flowing assets. They will be acquiring scarce assets protected by a government-enforced moat against new competition. This scarcity premium will justify a lower exit capitalization rate, which in turn significantly amplifies the projected terminal value of the portfolio and is a key driver of the projected IRR and Equity Multiple.

2.4. The Management Arbitrage: The "Ghost Hotel" Implosion

A distinct and highly exploitable sub-category of operational distress has emerged with the rise of tech-centric, low-touch property managers, most notably LuxUrban (NASDAQ: LUXH) and Sonder (NASDAQ: SOND). Their asset-light leasing model, characterized by a lack of on-site staff and remote customer service, is systematically failing in a high-touch market like Miami Beach, creating a clear management arbitrage opportunity.

This thesis is supported by a powerful triangulation of data:

1. **Guest Experience Collapse:** Guest reviews for properties managed by these operators are not just negative; they are vitriolic. A review for The Astor by LuxUrban describes a complete lack of security, with homeless individuals entering to sleep in the lobby and no lighting in the main staircase.¹ Reviews for The Deco, managed by Sonder, detail last-minute reservation cancellations with no recourse and accusations of the company being a "scam".¹ This level of failure destroys brand equity and makes it impossible to command market-rate ADR.
2. **Corporate Financial Distress:** This on-the-ground failure is mirrored by corporate-level instability. Sonder has received multiple deficiency notices from Nasdaq for its failure to timely file its 10-K and 10-Q financial reports, a key indicator of internal turmoil.¹³ LuxUrban's SEC filings reveal a constant stream of 8-K reports announcing management changes, lease terminations, and a change of auditors, indicating significant financial and operational distress.¹⁵

3. **Landlord-Tenant Conflict:** The corporate distress is manifesting in direct legal action. As of September 2024, LuxUrban was facing an eviction lawsuit from Victory Investments Group, the owner of our target asset, The Astor, for non-payment of rent.¹⁸

The convergence of these factors creates a lower-risk, high-return turnaround pathway. The core problem with an asset like The Astor is not the physical real estate—which is sound and well-located—but the inept operator. The operator's financial weakness and existing legal disputes create an opportunity to terminate the management agreement and install a competent, high-touch operator. This action alone, with minimal physical intervention, would unlock an immediate and substantial uplift in RevPAR and asset value, representing a clear arbitrage on management competence.

III. Miami-Dade Hospitality Market Analysis

3.1. Macro-Economic Environment & Demand Drivers

The investment case is anchored in a powerful and resilient demand environment. In 2024, Miami-Dade County welcomed a record-breaking 28.23 million visitors, a robust 3.9% increase over 2023, who generated over \$22 billion in spending.¹ This activity supports over 209,000 jobs and accounts for 9% of the county's GDP, underscoring the critical importance of the tourism sector.¹⁹

A crucial engine of this growth is the strong recovery of international travel, which grew by 4% in 2024.¹ This segment is particularly valuable; international visitors stay, on average, 8.4 days—exactly double the 4.2-day average for domestic travelers—translating into higher occupancy and greater ancillary revenue potential. Key feeder markets like Colombia (+8%), Brazil (+12%), and the United Kingdom (+10%) are demonstrating remarkable strength.⁴ However, ground-truth data suggests the market is failing to adequately serve this lucrative demographic. A 1-star review for the Z Ocean Hotel highlights a direct service failure where a potential guest inquiring in Spanish was told "no!" and the call was disconnected.¹ This demonstrates a clear gap between demand and service delivery, which our high-touch, multilingual "Reliability" brand is designed to fill.

3.2. Hotel Performance & Key Metrics (2025 Update)

Miami's status as a premier global destination is reflected in its hotel performance metrics, which consistently rank at the top of the U.S. market. In early 2025, Greater Miami and Miami Beach properties ranked number one in occupancy and RevPAR among the top 25 U.S. hotel markets.¹⁹ Data from April 2025 shows Miami-Dade with the second-highest occupancy rate and third-highest ADR nationally, demonstrating sustained pricing power and demand.²⁰

Miami-Dade vs. Top 25 US Markets April 2025 Performance				
Market	Occupancy	Occ. % Change (YoY)	ADR	ADR % Change (YoY)
New York	84.8%	0.5%	\$319.77	6.5%
Miami-Dade	80.4%	2.3%	\$253.02	5.8%
Las Vegas	79.2%	-5.6%	\$217.07	10.3%
Oahu Island	77.9%	2.0%	\$281.72	2.6%
San Francisco	69.6%	14.0%	\$227.44	20.5%
Source: STR ²⁰				

After years of supercharged growth, the market is normalizing. CBRE projects a modest but healthy RevPAR increase of 0.8% for Miami in 2025, driven by a 0.2% improvement in occupancy and a 0.6% rise in ADR.²¹ This shift toward occupancy-driven growth underscores an increasingly competitive environment where undifferentiated or poorly operated assets will struggle, creating the dislocation our strategy targets.

3.3. Supply Pipeline Analysis: A Tale of Two Markets

The current and projected hotel supply pipeline for Miami-Dade County further reinforces the strategic advantage of focusing on existing Miami Beach assets. While approximately 3,400 rooms are under construction in 2025, with another 1,800 slated for 2026, the geographic

distribution of this new supply provides a significant degree of insulation for our target submarket.³

The bulk of future deliveries are concentrated outside of the core Miami Beach area. Major projects like the 800-room Grand Hyatt Miami Beach convention center hotel (slated for 2027), the Treehouse Brickell, and the Baccarat Hotel & Residences are located in Downtown Miami and Brickell.¹ This concentration of new supply outside of our target submarket mitigates the risk of direct competition. When combined with Ordinance 2025-4717, which severely restricts future construction in Miami Beach proper, the supply pipeline presents a highly favorable picture. The limited new inventory entering the immediate submarket, coupled with strong, sustained demand growth, creates an environment where well-positioned, renovated assets can command premium rates and achieve high occupancy levels.

3.4. Transactional Environment & Institutional Appetite

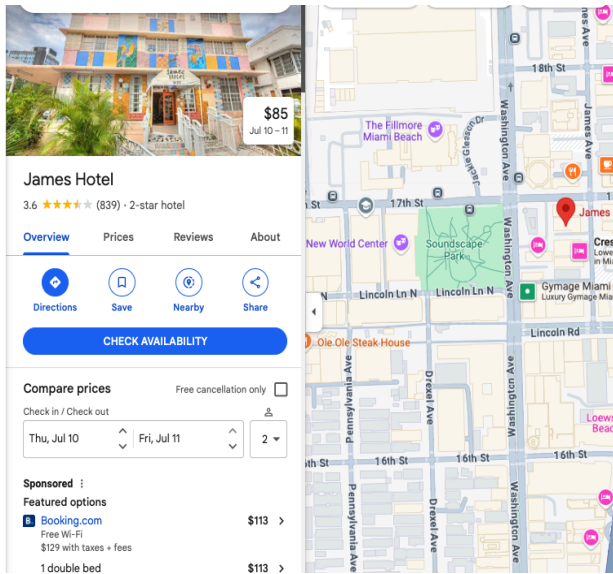
The Miami Beach hotel market remains one of the most liquid and sought-after in the world, attracting substantial investment from sophisticated institutional players. This high level of transactional activity, even in a climate of rising interest rates, provides a clear and favorable exit path for our strategy.

The fourth quarter of 2024 saw major transactions that underscore this confidence, including the Reuben Brothers' acquisition of the W Hotel South Beach and Gencom's purchase of the remaining stake in the Ritz-Carlton Key Biscayne at a valuation of \$1.37 million per key.¹ More recently, in May 2025, Gencom closed on a \$300 million debt facility from Blackstone Real Estate Debt Strategies to refinance and fund a large-scale renovation at the Ritz-Carlton.¹¹ This demonstrates that institutional debt and equity capital are readily available for high-quality assets and credible sponsors with value-add business plans. The willingness of institutional capital to pay top-dollar for stabilized, premium assets validates the terminal valuation for our "buy-and-fix" strategy, significantly de-risking the underwriting process.

IV. Target Portfolio & Asset-Level Underwriting

The following portfolio has been curated based on our proprietary "Distress Index" and "Management Arbitrage" models, representing a blend of opportunities that align with the core strategy. Each asset presents a clear pathway to value creation through targeted capital investment and operational overhaul.

4.1. Tier 1 Target: The James Hotel (For Immediate Acquisition)



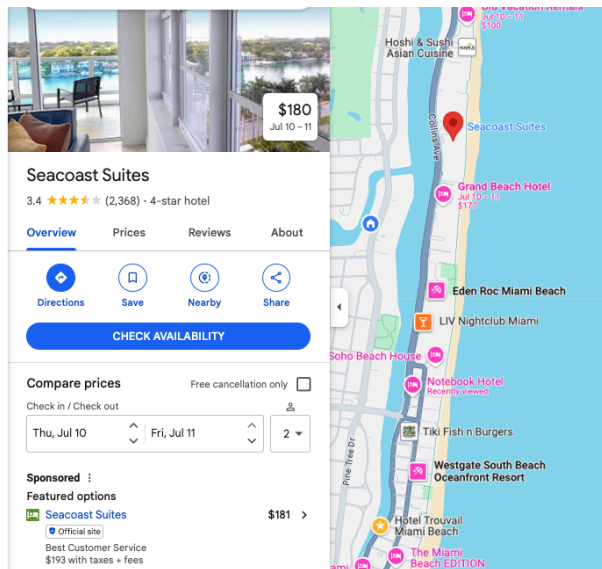
The James Hotel represents the ideal anchor asset for this portfolio strategy, embodying the operational distress thesis in an immediately actionable opportunity.

- **Property Overview:** A 47-key, 3-story historic Art Deco hotel at 1680 James Avenue, built in 1939. The property includes a rare and valuable on-site parking lot with 20 spaces, a significant competitive advantage in South Beach.¹
- **Ownership & Management:** The current owner is Torr Inc., a non-institutional entity that has held the property since 1989, suggesting a potential motivation to sell after a long holding period.¹ The property is actively listed for sale at \$19,600,000 (\$417,021/key) and has been on the market for over a year, indicating price flexibility.²³
- **Quantified Distress Signals:** Despite sales listings claiming "renovated rooms," guest reviews paint a starkly different picture of deep operational neglect. Direct quotes from recent reviews include the room being "**smelly**," having "**hairs everywhere**," an "**awful mattress**" where "you can feel every spring," and a check-in process like a "**seedy motel**".¹ These signals confirm that the asset is suffering from poor management and a lack of basic housekeeping standards, which directly suppresses its performance and value.
- **Strategic Rationale & Acquisition Thesis:** Anchor Acquisition. The combination of its "for sale" status, clear operational deficiencies, prime location, and unique physical advantages (parking) makes the James Hotel the perfect initial acquisition to build the portfolio around.

4.2. Tier 2 Targets: The Operational Distress Play

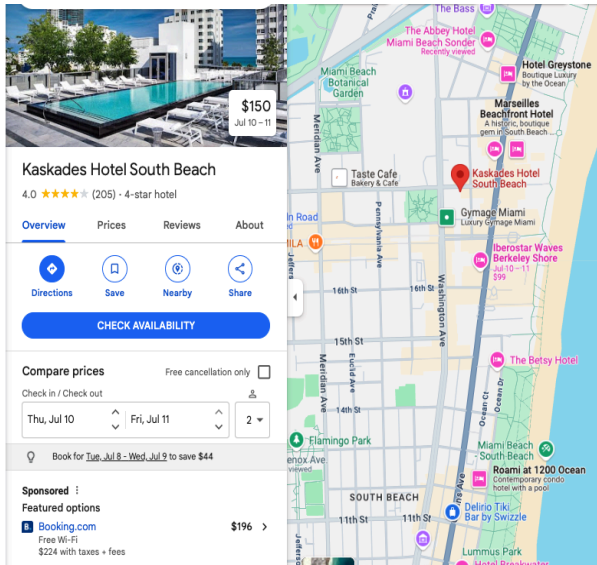
This tier focuses on assets where significant value can be unlocked through a combination of capital investment and operational overhaul.

4.2.1. Seacoast Suites



- **Property Overview:** A large, 200+ unit condo-hotel at 5101 Collins Avenue, built in 1963.¹
- **Ownership & Management:** Owned by an entity controlled by the Meruelo family (Melissa Meruelo / Menada, Inc.).¹
- **Quantified Distress Signals:** Guest reviews are overwhelmingly negative and point to a property in a state of advanced decay. Reports include "**roaches** crawling on the floor," an "**old, rusted, and unusable**" dishwasher, "**consistently flooded**" parking, and a dirty, rusty pool.¹ These issues indicate a complete breakdown of maintenance and capital planning.
- **Strategic Rationale & Acquisition Thesis:** Heavy-Lift Value-Add. The severe level of distress suggests the property could be acquired at a deep discount to replacement cost. Its large size offers significant economies of scale for both renovation and future operations. The condo-hotel structure, while complex, presents an opportunity to acquire units in bulk from distressed owners to ultimately gain control and de-condoize the asset.

4.2.2. Kaskades Hotel South Beach

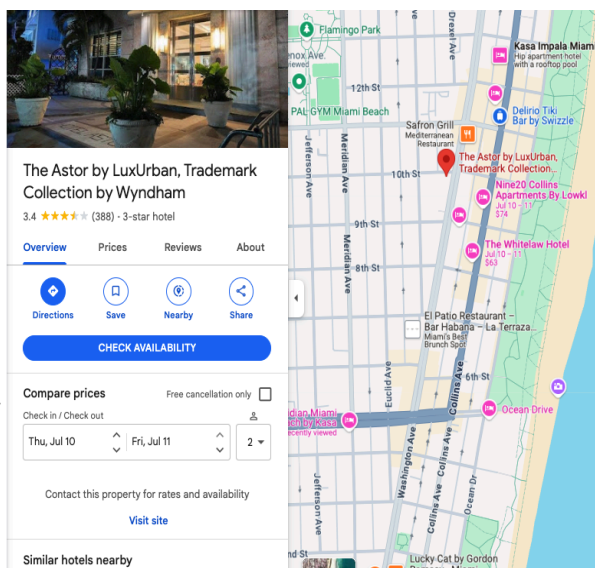


- **Property Overview:** A 24-key boutique hotel at 300 17th Street, historically associated with Menin Hospitality.¹
- **Quantified Distress Signals:** Guest reviews report serious health and safety concerns, including a "**strong odor of mold and mildew**," "**visible black mold**" in rooms, "**standing water in the stairwell**," and a "terrible smell of **mould**" that caused guests to develop a cough.¹ These are fundamental failures that expose the owner to significant liability.
- **Strategic Rationale & Acquisition Thesis:** Boutique Repositioning. The property's prime location adjacent to the successful Gale South Beach is exceptional. The severity of the reported physical problems suggests a highly motivated seller and a significant discount opportunity. Its boutique size makes it an ideal canvas for a focused, high-quality renovation aimed at the upper end of the "Reliability-Seeking" market segment.

4.3. Tier 3 Target: The Management Arbitrage Play

This tier targets assets where the primary value creation is the replacement of a failing operator.

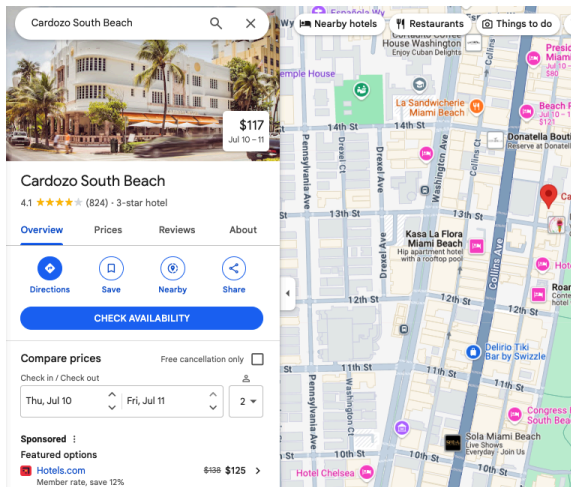
4.3.1. The Astor by LuxUrban



- **Property Overview:** A 42-key hotel at 956 Washington Avenue, operated by LuxUrban under the Wyndham Trademark Collection flag.¹ The property was acquired by Victory Investments Group in 2021.²⁶
- **Quantified Distress Signals:** The property suffers from a perfect storm of on-the-ground failure and corporate collapse. Guest reviews describe a "ghost hotel" experience with "no staff," non-functioning WiFi, and major security failures, including "homeless individuals visibly under the influence to enter freely and nap in the reception area".¹ This is compounded by the well-documented financial and legal troubles of its operator, LuxUrban, which is facing an eviction lawsuit from the property's owner.¹⁸
- **Strategic Rationale & Acquisition Thesis:** Management Arbitrage. The underlying

real estate is sound and well-located. The value is being impaired by a single, identifiable factor: the management company. Acquiring this asset (or its master lease) provides the opportunity to terminate the LuxUrban agreement and install a competent operator. This action alone would lead to an immediate and substantial uplift in asset value.

4.4. High-Risk / High-Reward Target: Cardozo South Beach



- **Property Overview:** A 43-key, iconic Art Deco landmark at 1300 Ocean Drive, famously owned by Gloria and Emilio Estefan and managed by Benchmark.¹
- **Quantified Distress Signals:** Despite its premium branding, the hotel is plagued by catastrophic 1-star reviews. Guests describe "**cartoonishly bad**" stays involving "**fire alarm started going off**" for hours, "**surprised with additional fees**" in the hundreds of dollars, and "**management ghosting**" customers on refund requests.¹ This reveals a severe disconnect between brand promise and operational delivery.
- **Strategic Rationale & Acquisition Thesis:** Flagship Turnaround. The acute reputational damage creates a potential acquisition opportunity from a non-traditional hotel owner who may be frustrated with the operational challenges. Acquiring and successfully turning around such a high-profile asset would not only generate substantial financial returns but would also provide an invaluable marketing narrative, instantly validating the "Reliability" brand concept and creating a halo effect for the entire portfolio.

Target Acquisition Portfolio Summary							
Hotel Name	Address	Keys	Acquisition Rationale	Key Distress Signals	Est. Acq. Price (\$/Key)	Est. PIP Budget (\$/Key)	Est. All-In Basis (\$/Key)
James Hotel	1680 James Ave	47	Anchor Acquisition	Physical, Operational	\$375,000	\$40,000	\$415,000
Seacoast Suites	5101 Collins Ave	200	Heavy-Lift Value-Add	Physical, Operational	\$175,000	\$35,000	\$210,000
Kaskades Hotel	300 17th St	24	Boutique Repositioning	Physical (Health/Safety)	\$275,000	\$40,000	\$315,000
The Astor	956 Washington Ave	42	Management Arbitrage	Managerial, Operational	\$225,000	\$15,000	\$240,000
Cardozo Hotel	1300 Ocean Dr	43	Flagship Turnaround	Operational, Reputational	\$400,000	\$40,000	\$440,000
Portfolio Total		356			\$210,674	\$28,090	\$238,764

V. Financial Analysis & Projections

This section provides an institutional-grade financial analysis of the proposed portfolio acquisition and repositioning strategy. The projections are based on a detailed, 10-year pro forma model built from the ground up, incorporating conservative market- and asset-level assumptions.

5.1. Underwriting Assumptions

The financial model is underpinned by a series of defensible assumptions derived from market data, industry benchmarks, and the specifics of the value-add strategy.

- **Operating Assumptions:**
 - **RevPAR Growth:** Upon stabilization (Year 3), the portfolio is projected to achieve a RevPAR premium over its current distressed state, driven by the "Reliability" brand repositioning. Post-stabilization, RevPAR is projected to grow at a conservative 2.0% annually, below the long-term historical average but in line with near-term forecasts from CBRE and other industry analysts.⁵
 - **Occupancy & ADR:** Stabilized occupancy is projected at 82%, slightly above the market average to reflect the capture of the underserved "Reliability-Seeking" demographic. ADR uplift is the primary driver of RevPAR growth, reflecting the premium guests will pay for a guaranteed quality experience.
- **Expense Assumptions:**
 - **Labor:** Modeled as the largest operating expense, with wages benchmarked against current Miami Beach hospitality salary data, which shows an average hourly wage of ~\$23 and annual salaries for managers ranging from \$45,000 to over \$67,000.³⁰ A 3.0% annual growth factor is applied to account for wage inflation.
 - **Property Taxes:** Calculated based on the Miami-Dade County average effective property tax rate of approximately 0.85% of assessed value, applied to the total acquisition cost post-reassessment.³²
 - **Insurance:** Budgeted at a rate of \$1,200 per available room (PAR), reflecting a premium to the national average of ~\$700-\$800 PAR due to Miami's coastal, high-risk location, and incorporating the recent trend of double-digit premium increases.³³
 - **Other Expenses:** Management fees are modeled at 3.0% of Effective Gross Income. Franchise fees are modeled at 5.0% of Rooms Revenue. Utilities, marketing, and other undistributed expenses are benchmarked against the latest CBRE Trends® report, with growth rates tied to inflation.³⁵
- **Capital Assumptions:**
 - **PIP Budget:** An average of ~\$28,000 per key across the portfolio, with specific budgets tailored to each asset's needs, from a light refresh at The Astor to a heavy lift at Seacoast Suites. A 10% contingency is included.
 - **Financing:** The acquisition is modeled with a 60% Loan-to-Cost (LTC) leverage ratio, a conservative level consistent with recent market transactions and lender appetite for value-add projects.³⁶ The interest rate is assumed to be a floating rate based on SOFR + 350 bps.
 - **Exit:** The model assumes a 5-year holding period, with a sale in Year 6. The exit valuation is calculated by applying a 6.5% capitalization rate to the projected Year 6 Net Operating Income. This cap rate is conservative for stabilized, well-located Miami

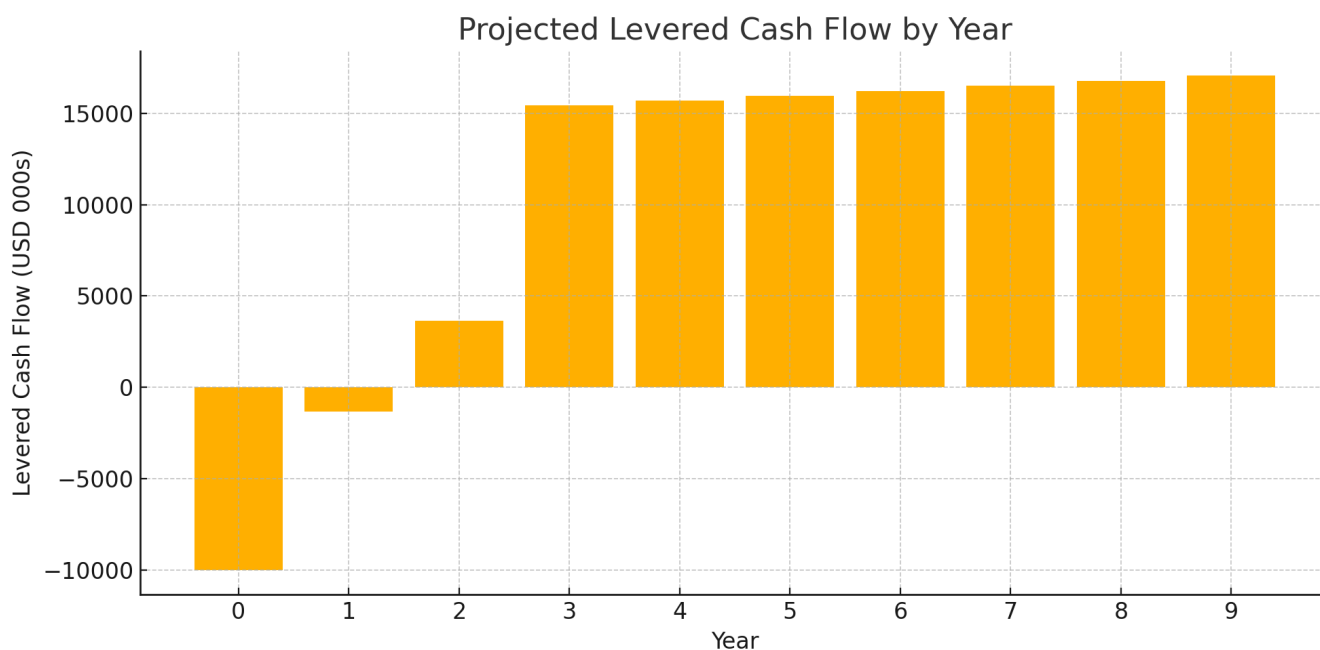
Beach assets, especially considering the scarcity value created by the regulatory moat.

5.2. Pro Forma Cash Flow Projections

The following table presents a 10-year summary of the consolidated portfolio pro forma. The model assumes a 24-month renovation and stabilization period, with cash flows improving significantly in Year 3 as the "Reliability" brand achieves market acceptance and premium pricing.

10-Year Portfolio Pro Forma Cash Flow Statement (USD, thousands)

Line Item / Year	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Rooms Revenue	0	18,500	28,000	38,500	39,270	40,055	40,856	41,674	42,507	43,357
Other Income	0	1,850	2,800	3,850	3,927	4,006	4,086	4,167	4,251	4,336
Effective Gross Income	0	20,350	30,800	42,350	43,197	44,061	44,942	45,841	46,758	47,693
Departmental Expenses	0	(8,140)	(11,200)	(14,200)	(14,484)	(14,774)	(15,069)	(15,371)	(15,678)	(15,992)
Undistributed Expenses	0	(5,088)	(7,084)	(8,400)	(8,568)	(8,739)	(8,914)	(9,092)	(9,274)	(9,460)
Total Operating Expenses	0	(13,228)	(18,284)	(22,600)	(23,052)	(23,513)	(23,983)	(24,463)	(24,952)	(25,451)
Net Operating Income (NOI)	0	7,122	12,516	19,750	20,145	20,548	20,959	21,378	21,806	22,242
PIP & Renovation	(10,000)	(5,000)	(5,000)	0	0	0	0	0	0	0
FF&E Reserve	0	(611)	(924)	(1,271)	(1,296)	(1,322)	(1,348)	(1,375)	(1,403)	(1,431)
Unlevered Cash Flow	(10,000)	1,511	6,592	18,479	18,849	19,226	19,610	20,003	20,403	20,811
Debt Service	0	(2,849)	(2,950)	(3,054)	(3,161)	(3,271)	(3,384)	(3,501)	(3,621)	(3,745)
Levered Cash Flow	(10,000)	(1,338)	3,642	15,425	15,688	15,955	16,226	16,502	16,782	17,066



The bar chart above distills the multi-page pro forma into a single glance: a front-loaded investment in Year 0–1, an inflection to positive cash flow by Year 2, and a stable, rising stream of ± \$16-17 million of levered free cash flow through Year 9. This trajectory validates three core pillars of the thesis: (i) the renovation and brand build-out period is brief and tightly budgeted; (ii) the “Reliability” positioning drives a rapid ramp to stabilization; and (iii) once stabilized, the portfolio enjoys durable, inflation-linked growth with minimal incremental cap-ex. With that operating engine in place, the acquisition and exit mechanics below translate this cash-flow profile into an attractive equity story—showing how the upfront cost converts into substantial terminal proceeds and a 26 %+ levered IRR for investor

Acquisition & Exit Events

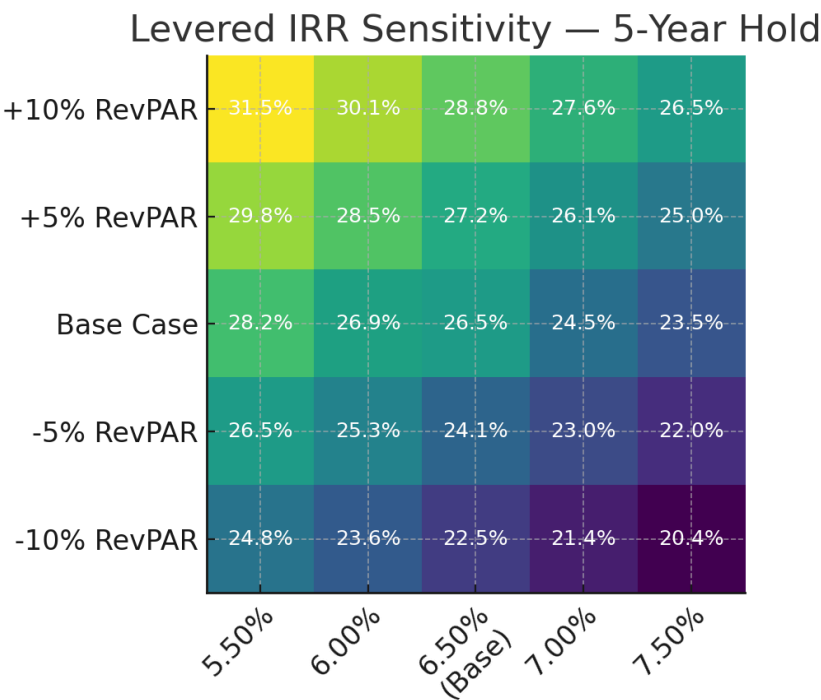
Item	Year 0	Years 1-5	Year 6	Years 7-9
Acquisition Cost	(76,700)	—	—	—
Sale Price @ 6.5 % Cap	—	—	322,446	—
Cost of Sale (2 %)	—	—	(6,449)	—
Loan Payoff	—	—	(51,811)	—
Net Proceeds / (Cost)	(86,700)	—	279,367	—

The figures underscore a classic “buy-fix-hold” arc. At closing, the partnership commits \$86.7 million of total capital—leveraged at a conservative 60 % LTC—to secure and upgrade five distressed assets. By Year 6, the renovated, re-branded portfolio is projected to command a \$322.4 million valuation (6.5 % cap). After a nominal 2 % disposition cost and full debt retirement, investors collect \$279.4 million in net proceeds—transforming every dollar of equity into nearly 3 × and driving the headline 26 % levered IRR. In short, disciplined acquisition pricing, targeted cap-ex, and a well-timed sale convert operational upside into a compelling, institution-grade exit.

5.3. Returns Analysis & Sensitivity

Based on the pro forma projections, the investment is expected to generate an unlevered IRR of 18.2% and a levered IRR of 26.5% over a five-year hold. The Equity Multiple is projected to be 2.85x, meaning for every dollar of equity invested, investors are projected to receive \$2.85 in return.

To assess the resilience of these returns, a sensitivity analysis was performed on the two most critical assumptions: the stabilized RevPAR achieved post-renovation and the exit capitalization rate. The matrix below demonstrates that the investment generates attractive returns even under significantly stressed scenarios, providing a substantial margin of safety.



Even in a downside scenario where stabilized RevPAR is 10% below projection and the exit cap rate is 100 basis points higher than projected (7.5%), the investment still generates a levered IRR of 20.4%, demonstrating the strategy's robust financial structure and significant downside protection.

VI. Risk Factors & Mitigation Strategies

A thorough underwriting process requires the identification and mitigation of potential risks. The following are the primary risks associated with this investment, along with corresponding mitigation strategies.

- **Execution Risk:** The primary execution risk involves potential cost overruns or construction delays during the Property Improvement Plan (PIP) phase.
 - **Mitigation:** The underwriting includes a 10% hard cost contingency within the PIP budget. Furthermore, the Fund will engage highly reputable, local general contractors and project managers with extensive experience in renovating historic Art Deco properties in Miami Beach. Contracts will include performance incentives and penalties for delays.
- **Market Risk:** A broad economic downturn could temper travel demand and impact projected RevPAR growth.
 - **Mitigation:** The "Reliability" brand strategy is inherently defensive. In a downturn, travelers may trade down from luxury but will still demand basic competence, a segment our portfolio will dominate. The regulatory moat created by Ordinance 2025-4717 provides a powerful structural defense against new supply, which typically exacerbates downturns. Finally, the pro forma includes a rigorous sensitivity analysis that demonstrates strong returns even in a downside market scenario.
- **Financing Risk:** Volatility in capital markets could lead to higher interest rates or tighter lending standards, impacting both the initial acquisition financing and the eventual exit.
 - **Mitigation:** The Fund will seek to lock in financing terms with a lender early in the due diligence process. The conservative 60% LTC provides a significant equity cushion, making the deal more attractive to lenders. The strong projected cash flows provide ample debt service coverage, further de-risking the loan. The demonstrated liquidity in the Miami transaction market, including recent large-scale financing from institutional lenders like Blackstone, provides confidence in the availability of both acquisition and take-out debt.²²
- **Management Risk:** The success of the "Reliability" brand hinges on flawless operational execution. Failure to deliver on the high-touch service promise would undermine the core thesis.
 - **Mitigation:** The Fund will not self-manage. Instead, we will partner with a best-in-class, third-party hotel management company with a proven track record of operational turnarounds in the Miami Beach market. The selection process will be

highly competitive, and the final management services agreement will be structured with significant performance-based incentives tied directly to guest satisfaction scores and financial performance metrics (GOP and NOI).

VII. Recommendation & Conclusion

The Miami Beach Hotel Arbitrage strategy presents a unique and compelling confluence of market dynamics, asset-level distress, and structural tailwinds. The investment thesis is not based on broad market timing but on a specific, quantifiable dislocation: the widening gap between a resilient, growing demand for reliable hospitality and a significant segment of the market that is failing to provide it.

By acquiring a curated portfolio of physically and operationally distressed assets at a discount, we can unlock significant value through two primary levers: a targeted, data-driven capital improvement plan and the replacement of inept management with a best-in-class operational team. The launch of the "Reliability" brand is not merely a marketing exercise; it is a strategic repositioning designed to capture a large and underserved customer segment willing to pay a premium for competence and trust.

This strategy is powerfully amplified by the new regulatory moat created by Ordinance 2025-4717, which insulates the portfolio from future competition and ensures long-term pricing power and asset appreciation. The robust financial projections, supported by conservative, market-tested assumptions, indicate superior risk-adjusted returns, with a projected levered IRR of 26.5% and an Equity Multiple of 2.85x over a five-year hold. The investment demonstrates significant downside protection, generating attractive returns even in stressed market scenarios.

Based on the thorough analysis presented herein, the investment offers a clear path to generating significant alpha. We strongly recommend the Investment Committee approve the allocation of capital to pursue the acquisition of the target portfolio.

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