

TLG PHOENIX, LLC

July 7, 2017

City of Phoenix  
Downtown Phoenix Hotel Corporation  
c/o Brad Holm  
City Attorney  
Law Department  
City of Phoenix  
200 W Washington  
PHOENIX, AZ 85003

**RE: LETTER OF INTENT TO ACQUIRE THE SHERATON GRAND PHOENIX LOCATED AT 340 NORTH 3<sup>RD</sup> STREET, PHOENIX, ARIZONA 85004 (THE "SHERATON GRAND PHOENIX")**

Dear Mr. Holm:

I am pleased to provide this Letter of Intent ("LOI") which is intended to summarize the principal terms of a proposed transaction by TLG Phoenix, LLC, a Delaware limited liability company, or its assigns ("Purchaser"), for the purposes of (i) acquiring a long-term lease ("Property Lease") of the Sheraton Grand Phoenix, the underlying land and all buildings and improvements situated on the land (the "Real Estate") and (ii) acquiring title to all personal property related to the operations of the Sheraton Grand Phoenix (the "Personalty"; the Real Estate and Personalty are collectively referred to as the "Property") from the Downtown Phoenix Hotel Corporation ("DPHC") and the City of Phoenix, Arizona ("Phoenix"); the term "City" shall mean either (a) DPHC and Phoenix or (b) DPHC or Phoenix, as the context requires or permits. The transaction proposed by this LOI is herein referred to as the "Transaction."

The parties will prepare final definitive acquisition agreements providing for the Transaction and all appropriate ancillary agreements and matters thereto, which shall be based on the principal business terms outlined in this LOI.

Based on the information currently known to the parties, the agreement shall include the following terms:

1. **Purchase Price.** The purchase price for the Property (collectively the "Project") shall be \$255,000,000 and shall be payable as follows, subject to all applicable prorations and closing costs:

Initial Deposit within 3 business days after the execution and delivery of this LOI by the City	\$100,000
Second Deposit within 5 business days after full execution of the Purchase Contract (as defined below)	\$4,900,000
Cash Upon Closing	\$250,000,000
Total	\$255,000,000



2. **Contract Deposits.** Within three (3) business days after the execution and delivery of this LOI by the City, Purchaser shall deposit, in escrow, with First American Title Insurance Company or other entity approved by the parties (“Escrow Agent”), One Hundred Thousand Dollars (\$100,000), in cash deposit (“Initial Deposit”). Within five (5) business days after the execution of the Purchase Contract, as defined below, that is fully approved by Phoenix, Purchaser shall deposit, in escrow, with the Escrow Agent, Four Million and Nine Hundred Thousand Dollars (\$4,900,000) in cash deposit (“Second Deposit”). The Initial Deposit and Second Deposit (collectively, the “Deposit”) shall be held subject to the provisions set forth in the Purchase Contract, and the Deposit shall be fully refundable until the expiration of the Physical Review Period (as defined below).
3. **Purchase Contract.** Purchaser and the City agree to negotiate in good faith the terms of a definitive agreement (the “Purchase Contract”) to be executed no later than 30 days after City Council approval of the Transaction. Purchaser will provide within 15 business days after full execution of this LOI a proposed form of the Purchase Contract for the City’s review.
4. **Due Diligence.** The City shall provide to Purchaser a due diligence period that shall commence on the date of this LOI and expire 45 days after execution of the Purchase Contract (the “Physical Review Period”). Purchaser will be entitled to perform physical due diligence on the Property, with typical indemnities and insurance requirements. Purchaser shall have the right at any time prior to the expiration of the Physical Review Period to terminate the Purchase Contract if Purchaser is not satisfied with any aspect of the Property whatsoever, in which event the Deposit shall be immediately returned to Purchaser. Purchaser shall have the one-time right to extend the Physical Review Period for a period of 30-days, upon providing written notice of the extension to the City five (5) days prior to the expiration of the Physical Review Period, and an additional cash deposit of One Hundred Thousand Dollars (\$100,000) (“Third Deposit”) to be paid to Escrow Agent. The Deposit and the Third Deposit (i) shall be held by the Escrow Agent subject to the provisions set forth in the Purchase Contract, (ii) shall be fully refundable until the expiration of the Physical Review Period, and (iii) shall be credited to the Purchase Price.
5. **Closing Date.** The Closing shall occur on or before 20 days after the expiration of the Physical Review Period (“Closing Date”). The parties may extend the Closing Date by mutual agreement to no later than January 5, 2018.
6. **Costs and Expenses.** The City and Purchaser shall evenly split the cost of all documentary stamp taxes or transfer taxes, if any, arising from the conveyance deed for the Property. Although it is Purchaser’s understanding that there are no real estate taxes due on the Property, the City will pay any past due real estate taxes and any cost of curative title work or prepayment premiums or cost associated with release of any liens or loans encumbering the Property. Purchaser shall select the title company, subject to City approval, and the City shall pay the cost of the base owner’s title insurance premium in the amount of the Purchase Price (but Purchaser alone shall pay for the cost of any endorsements). Other than as stated above, each party will be responsible for its costs of closing the Transaction.



7. **Hotel Operating Agreement.** Purchaser shall have the right at any time before the end of the Physical Review Period to elect to assume the existing Hotel Operating Agreement dated August 12, 2015 (the "HOA") with Starwood Hotels & Resorts Management Company, Inc. ("Starwood") or to require that the City terminate the HOA before Closing. If Purchaser elects to assume the HOA, as a condition precedent to Closing, Starwood must provide any required consent and the City shall cooperate with the Purchaser to obtain the same from Starwood. If Purchaser elects to cause City to terminate the HOA, City shall, as a condition precedent to Closing, deliver such termination notice at any time prior to Closing. Purchaser understands that the HOA permits termination on 120 days' notice and payment of a termination fee of approximately \$4 million to Starwood (the "Termination Fee") before the effective date of termination. If Purchaser exercises the option to cause the City to terminate the HOA, (i) Purchaser shall be responsible for paying the Termination Fee at Closing, and (ii) Purchaser must proceed to Closing and accept the Sheraton Grand Phoenix subject to the HOA term expiring 120 days from such termination notice. Notwithstanding the foregoing, upon execution of the Purchase Contract, Purchaser shall have the right to contact and negotiate with Starwood for a reduced Termination Fee or to modify the HOA. In the event the City is not required to pay the full Termination Fee, Purchaser shall receive the full benefit of any savings realized.
8. **Contingencies and Conditions to Closing.** Purchaser acknowledges that the Closing of the Transaction is not contingent on any financing and Purchaser shall proceed to Closing on an all-cash basis or as described in Paragraph 9 below. Notwithstanding the forgoing, the Closing of the transaction is contingent on the following:
- (i) Purchaser's leasehold estate under the Property Lease is insured by Purchaser's title insurance company without exception for any liens, encumbrances, mortgages, restrictions or other matters of record other than those matters approved by Purchaser pursuant to the Purchase Contract, (ii) no "material" adverse change in the physical condition of the Property or any portion of the common areas, including, without limitation, damage by casualty, wind, storm, fire, lightning, environmental contamination, or any other condition, (iii) no threatened condemnation of any "material" portion of the Property, and (iv) City has complied with its "material" obligations under the Purchase Contract. The determination of "material" shall be negotiated in the Purchase Contract.
9. **Property Lease.** The fee title to the Property is held by Phoenix. DPHC holds a ground leasehold interest in the property (the "Current Ground Lease"). As a condition to Purchaser's obligation to close, (a) Phoenix and DPHC shall terminate the Current Ground Lease and (b) Phoenix will enter into the new Property Lease directly with Purchaser with the following terms: (i) the consent of the City to the lease of the Real Estate to Purchaser, (ii) a term for 20 years for the Property Lease from the date of Closing with the value of the Property Lease being paid as part of the Purchase Price, which is payable in advance at Closing; (iii) at the option of Purchaser's lender, the City shall subordinate the Property Lease to any mortgages and security agreements secured by the Real Estate and any interest the City may have in the Personalty, (iv) an option in favor of Purchaser and its successors-in-title to acquire the fee interest in Real Estate for a sum of \$100 at any time during the term, (v) a requirement that the Property be used only as a 1,000 room full service, first class



convention hotel with related uses (similar to current uses and quality) and (vi) at the end of the 20-year term, the Real Estate shall be conveyed to Purchaser for no additional consideration; provided that Purchaser (or its successors-in-title) agrees to sign a recordable restrictive covenant limiting the use of the Real Estate solely to a 1,000 room full service, first class convention hotel with related uses (similar to current uses and quality) unless otherwise approved by the City. The City will provide a proposed form of the Property Lease for Purchaser's review within 15 business days after the City's acceptance of this LOI.

The proposed form of the Property Lease shall authorize Phoenix to lease the Real Estate to Purchaser. Purchaser shall pay a Government Property Lease Excise Tax ("GPLET") on the building and improvements. The GPLET for the Real Estate shall be at certain rate per square foot for the building and parking structure square footage, as prescribed by Arizona Statutes.

10. **Collective Bargaining Agreement.** Purchaser acknowledges that Starwood has entered into a collective bargaining agreement (the "CBA") with UNITE HERE regarding the Property. Purchaser agrees to assume the obligations of Starwood under the current terms of the CBA (but no modifications unless approved by Purchaser) that arise from and after the Closing.
11. **Existing Hotel Contracts and Offers.** Purchaser acknowledges that Starwood has executed various contracts and extended offers to contract relating to hotel guest and meeting room availability at the Property on behalf of the City (collectively, "Existing Hotel Room Obligations"). Purchaser agrees to honor all Existing Hotel Room Obligations that are executed or offered by Starwood before the Closing, subject to the terms and conditions of the Purchase Contract.
12. **Hotel Asset Management Agreement.** City acknowledges that Purchaser desires to retain the existing hotel asset management company, CHMWarnick, to asset manage the Property after the Closing, and City hereby grants permission to Purchaser to negotiate the terms of such post-Closing management agreement with CHMWarnick.
13. **Reserve Account.** The hotel operations on the Real Estate has a current furniture, fixture, and equipment reserve account in the approximate amount of \$13 million (the "Reserve Account"). The Reserve Account shall be supplemented and used in the ordinary course of business consistent with past practices between the date hereof and Closing; provided, however, any use of the Reserve Account in excess of \$50,000 for any one expense or series of related expenses must be approved by Purchaser, which approval will not be unreasonably withheld. The balance of the Reserve Account shall be transferred to Purchaser at Closing for no additional consideration.
14. **No Brokers.** Each party represents and warrants to the other party, that neither Purchaser nor City has dealt with any intermediary in connection with the Transaction as it relates to the Property other than Concord Wilshire Capital, LLC (who is a licensed broker in the State of Florida and shall be paid by Purchaser at Closing pursuant to a separate agreement). If a claim for brokerage in connection with the Transaction is made by any other intermediary, salesman, or finder claiming to have dealt through or on behalf of one of the parties hereto,



then said party shall indemnify, defend, and hold the other party hereunder harmless from all liabilities, damages, claims, costs, fees, and expenses whatsoever (including reasonable attorneys' fees, expenses and court costs) with respect to said claim for brokerage. The provisions of this paragraph shall survive the Closing.

15. **Legal Effect.** EXCEPT FOR PARAGRAPH 13, 14, THIS PARAGRAPH 15, AND PARAGRAPH 16 AND 17 BELOW, THE PARAGRAPHS AND PROVISIONS OF THIS LETTER DO NOT CONSTITUTE AND WILL NOT GIVE RISE TO ANY LEGALLY BINDING OBLIGATION ON THE PART OF THE CITY OR PURCHASER, AND NO PARTY HERETO SHALL EVER ASSERT OR CLAIM ANYTHING TO THE CONTRARY EXCEPT BY AND THROUGH A LEGALLY BINDING PURCHASE CONTRACT WHICH MAY BE ENTERED INTO IN THE FUTURE BETWEEN THE PARTIES. THIS LETTER CONSTITUTES A LETTER OF INTENT ONLY AND THERE SHALL BE NO OBLIGATION TO BUY OR SELL THE PROPERTY UNLESS AND UNTIL THE SALE IS APPROVED BY THE PHOENIX CITY COUNCIL AND A DEFINITIVE PURCHASE CONTRACT IS EXECUTED AND DELIVERED BY THE PARTIES.

16. **Exclusive Negotiation Period; Backup Offers.** The City acknowledges that (a) during the past 18 months, Purchaser has expended a significant amount of time and capital pursuing the Transaction and (b) Purchaser is providing the Initial Deposit of \$100,000 in consideration for the exclusive rights provided in this LOI. In exchange, the City agrees that from the date of acceptance of this LOI and for a period of time ending on the earlier of the date that the Purchase Contract is signed or 90 days from the date hereof, (i) the City shall exclusively negotiate with Purchaser in good faith the terms of the Purchase Contract and Property Lease, which must be acceptable to both the City and Purchaser at their respective sole discretion, (ii) the City shall not, directly or indirectly, (a) solicit any other offers to purchase or lease the Property nor enter into any negotiations to sell or lease the Property with any party other than Purchaser during this exclusive negotiation period, or (b) respond to any communications or offers to purchase or lease the Property other than to advise such offerors that the City is in exclusive negotiations with Purchaser.

17. **Timeline.** The following is a timeline of the proposed schedule of events for the Transaction:

EVENT	EARLIEST DATE	LATEST DATE
City Acceptance of LOI	July 10, 2017	July 10, 2017
60-day GPLET Notice to be sent out by the City	June 30, 2017	June 30, 2017
Purchaser's Initial Deposit (\$100,000)- (3 business days from City's acceptance of LOI)	July 13, 2017	July 13, 2017
1. Purchaser submits draft Purchase Contract to the City 2. City submits draft Property Lease to Purchaser-(15 business days from City's acceptance of LOI)	August 2, 2017	August 2, 2017



Sign Purchase Contract with form Property Lease as an exhibit ("Contract Date")- (no more than 30 days after City Council approval of the Transaction)	September 1, 2017	September 29, 2017
Purchaser's Second Deposit (\$4,9000,000) due- (five business days from the Date of Signed Purchase Contract)	September 8, 2017	October 6, 2017
Physical Review Period-Deposit goes hard-- (Contract Date through 45 days thereafter)	October 16, 2017	November 15,2017
Due Diligence Extension of 30-days if exercised- Deposit goes hard, plus an additional deposit of \$100,000 due	November 15, 2017	December 15, 2017
Closing Date-(20 days after the end of the Physical Review Period, but no later than January 5, 2018)	November 5, 2017	January 5, 2018

18. **Electronic Signatures.** The delivery of signed counterparts of this LOI by electronic means (such as telecopy, pdf or e-mail) shall be as valid as an original counterpart.

SIGNATURES APPEAR ON NEXT PAGE

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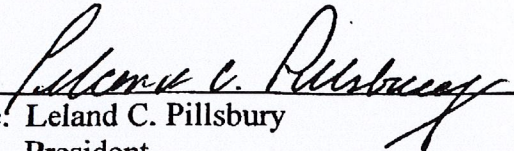


If the foregoing reflects the salient points of an acceptable business agreement, please sign and return the enclosed duplicate original copy of this Letter of Intent to the undersigned.

Please call me if you have any questions.

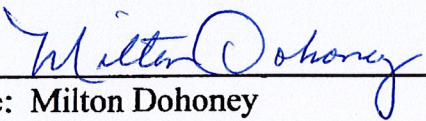
Very truly yours,

**TLG PHOENIX, LLC**

By:   
Name: Leland C. Pillsbury  
Title: President

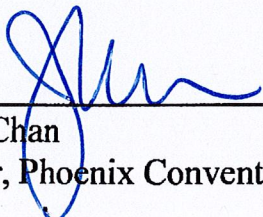
**AGREED AND ACCEPTED BY DPHC THIS 10 DAY OF JULY, 2017:**

**DOWNTOWN PHOENIX HOTEL CORPORATION**

By:   
Name: Milton Dohoney  
Title: President

**AGREED AND ACCEPTED BY THE CITY THIS 10 DAY OF JULY, 2017:**

**THE CITY OF PHOENIX, ARIZONA**

By:   
Name: John Chan  
Title: Director, Phoenix Convention Center