





- **The Mortgaged Property.** The Hilton Irvine Property is a 10-story, 306 room full service hotel located in Irvine, California. The Hilton Irvine Property was recently renovated as of March 2016, adding guestrooms, updating corridors and creating additional outdoor meeting space. The Hilton Irvine Property is located on 6.63 acres in the Orange County, California business and retail district, and adjacent to John Wayne International Airport. It is proximate to major freeways including the Interstate-405, Interstate-5, U.S. Highway 55 and 73 and demand drivers such as The University of California at Irvine, Anaheim Convention Center, along with approximately 83 million SF of office space. The Hilton Irvine Property offers guests over 22,000 SF of meeting space, a fitness center, business center, outdoor pool, laundry room and outdoor event space.

The following table presents certain information relating to the 2015 demand analysis with respect to the Hilton Irvine Property based on market segmentation, as provided in the appraisal for the Hilton Irvine Property:

2015 Accommodated Room Night Demand⁽¹⁾

Property	Meeting and Group	Leisure	Corporate
Hilton Irvine	15%	30%	55%

(1) Source: Appraisal.

The following table presents certain information relating to the penetration rates relating to the Hilton Irvine Property and various market segments, as provided in a July 2016 travel research report for the Hilton Irvine Property:

Penetration Rates⁽¹⁾

	Occupancy	ADR	RevPAR
TTM July 2016 ⁽²⁾	96.6%	100.3%	97.0%
TTM July 2015	109.4%	101.8%	111.5%
TTM July 2014	103.7%	103.4%	107.2%

(1) Source: July 2016 travel research report.

(2) Rooms were taken offline at the Hilton Irvine Property for a renovation that occurred between 2015 and 2016.

The following table presents certain information relating to historical occupancy, ADR and RevPAR at the Hilton Irvine Property:

Hilton Irvine⁽¹⁾

	TTM 7/31/2014	TTM 7/31/2015	TTM 7/31/2016
Occupancy	76.8%	79.9%	74.4%
ADR	\$142.94	\$149.88	\$152.03
RevPAR	\$109.74	\$119.69	\$113.13

(1) Source: July 2016 travel research report.

- **Operating History and Underwritten Net Cash Flow.** The following table presents certain information relating to the historical operating performance and the Underwritten Net Cash Flow, on an aggregate basis and per room, at the Hilton Irvine Property:

Cash Flow Analysis⁽¹⁾

	2013	2014	2015	TTM 7/31/2016	Underwritten	Underwritten \$ per Room
Rooms Revenue	\$11,060,147	\$12,570,088	\$12,775,235	\$12,592,285	\$12,989,842	\$42,450
Food & Beverage Revenue	3,788,831	4,109,447	4,117,998	4,733,827	4,883,281	15,958
Other Revenue ⁽²⁾	882,696	1,021,696	1,486,829	1,497,504	1,544,783	5,048
Total Revenue	\$15,731,674	\$17,701,231	\$18,380,062	\$18,823,617	\$19,417,906	\$63,457
Room Expense	\$2,888,969	\$3,165,093	\$3,081,932	\$3,076,727	\$3,173,863	\$10,372
Food & Beverage Expense	2,824,657	2,851,949	3,014,104	3,135,912	3,234,918	10,572
Other Expense	123,333	157,753	170,167	146,321	150,941	493
Total Departmental Expense	\$5,836,959	\$6,174,795	\$6,266,203	\$6,358,960	\$6,559,722	\$21,437
Total Undistributed Expense	5,251,218	5,759,644	4,827,348	4,935,228	4,997,665	16,332
Total Fixed Expense	1,015,368	1,179,563	813,946	850,381	1,137,141	3,716
Total Operating Expenses	\$12,103,545	\$13,114,002	\$11,907,497	\$12,144,570	\$12,694,528	\$41,485
Net Operating Income	\$3,628,129	\$4,587,229	\$6,472,565	\$6,679,047	\$6,723,377	\$21,972
FF&E	629,267	708,049	183,979	306,482	776,716	2,538
Net Cash Flow	\$2,998,862	\$3,879,180	\$6,288,586	\$6,372,565	\$5,946,661	\$19,434

(1) Certain items such as straight line rent, interest expense, interest income, depreciation, amortization, debt service payments and any other non-recurring or non-operating items were excluded from the historical presentation and are not considered for the underwritten cash flow.

(2) Other revenue includes parking, communications, gift shop, laundry and other miscellaneous revenue.

- **Appraisal.** According to the appraisal, the Hilton Irvine Property had an “as-is” appraised value of \$82,000,000 as of July 13, 2016 and an “as stabilized” appraised value of \$91,900,000 as of August 1, 2020 based on an assumed stabilized level of operation, which assumes a 77.0% occupancy, \$183.71 ADR, resulting in a RevPAR of \$141.46.
- **Environmental Matters.** According to a Phase I environmental report, dated June 16, 2016 there are no recognized environmental conditions or recommendations for further action at the Hilton Irvine Property, other than the implementation of an asbestos operations and maintenance plan.
- **Market Overview and Competition.** The Hilton Irvine Property is located in the Orange County, California submarket. According to a July 2016 travel research report, the Hilton Irvine Property’s competitive set has an average occupancy of 77.0%, ADR of \$151.51 and RevPAR of \$116.67 as of the trailing 12-month period ended July 31, 2016.

The following table presents certain information relating to the primary competition for the Hilton Irvine Property:

Competitive Set⁽¹⁾

Property	Number of Rooms	Year Built	TTM July 2016 Occupancy	TTM July 2016 ADR	TTM July 2016 RevPAR
Hilton Irvine	306	1985	74.4%	\$152.03	\$113.13
Competitive Set					
Marriott Irvine	485	1983	NAV	NAV	NAV
Hotel Irvine Jamboree Center	536	1985	NAV	NAV	NAV
Fairmont Newport Beach	444	1983	NAV	NAV	NAV
Hilton Orange County Costa Mesa	486	1987	NAV	NAV	NAV
Total / Wtd. Avg. Competitive Set			77.0%	\$151.51	\$116.67

(1) Source: July 2016 travel research report.

- **The Borrower.** The borrower is 18800 MacArthur HMEJ LLC, a single-purpose, single-asset entity. Legal counsel to the borrower delivered a non-consolidation opinion in connection with the origination of the Hilton Irvine Loan. The non-recourse carveout guarantors under the Hilton Irvine Loan are Bright Builder Int'l Inc. and Hengmao USA Inc., both indirect owners of the borrower.
- **Escrows.** On the origination date, the borrower funded (i) a tax reserve in an amount equal to \$426,904, (ii) an insurance reserve in the amount of \$17,554 and (iii) a deferred maintenance reserve of \$367,536.

On each due date, the borrower is required to fund (i) a tax and insurance reserve in an amount equal to one-twelfth of the amount that the lender reasonably estimates will be necessary to pay taxes and insurance premiums over the then succeeding 12-month period, and (ii) an FF&E reserve in the amount of (a) on each due date from October 2016 through and including December 2017, the monthly amount required to be reserved pursuant to the hotel management agreement, and (b) beginning on the due date in January 2018, the greater of (1) the monthly amount required to be reserved for the replacement of furniture, fixtures and equipment pursuant to the management agreement and (2) one-twelfth of 4% of the operating income for the Hilton Irvine Property for the previous 12-month period (as determined on September 30 of each year) (such amount, the **"Monthly FF&E Expenditure Amount"**), provided, however, that the borrower will not be required to deposit the Monthly FF&E Expenditure Amount into such FF&E reserve if so long as (x) the property manager has established a separate FF&E reserve account established under the management agreement (the **"Approved FF&E Account"**), and in the name of the borrower (which account is pledged to the lender and subject to account control agreements in favor of the lender) (y) the borrower provides the lender with satisfactory evidence that such amounts have been reserved with the property manager in the Approved FF&E Account, and (z) the management agreement is in full force and effect and is not subject to any default beyond any applicable grace or notice and cure period by the borrower.

In addition, on each due date during the continuance of a Hilton Irvine Trigger Period, the related loan documents require an excess cash flow reserve as discussed under *"—Lockbox and Cash Management"* below.

A **"Hilton Irvine Trigger Period"** means (i) any period commencing as of the conclusion of any 12-month period (ending on the last day of any fiscal quarter) during which the debt service coverage ratio (as calculated under the related loan documents) is less than 1.35x, and ending at the conclusion of the second consecutive fiscal quarter for which the debt service coverage ratio for the trailing 12-month period (ending on the last day of any fiscal quarter) is greater than 1.35x, (ii) the period commencing upon the borrower's failure to deliver monthly, quarterly or annual financial reports and ending when such reports are delivered and they indicate that no other Hilton Irvine Trigger Period is ongoing and (iii) any period from (i) the date on which the borrower sponsors collectively fail to maintain (A) a net worth in excess of \$50,000,000 (including any net worth attributable to the Hilton Irvine Property) and (B) liquidity in excess of \$3,000,000 (excluding any liquidity attributable to the Hilton Irvine Property) until the borrower sponsors comply with both the foregoing net worth and liquidity tests.

- **Lockbox and Cash Management.** The Hilton Irvine Loan documents require that all cash proceeds received by the borrower or the property manager from credit card transactions, cash revenues and all other money received by the borrower or property manager with respect to the Hilton Irvine Property be deposited into an account established under the management agreement controlled by the property manager, pledged to the lender and subject to account control agreements (a “**Manager Account**”) or to the Approved FF&E Account (or, upon the effective date of the termination of the property manager is terminated, all such cash proceeds received from credit card transactions, cash revenues and other amounts are required to be deposited into the lockbox account or cash management account until a replacement property manager has been engaged and has established replacement Manager Accounts and a replacement Approved FF&E Account). Subject to the rights of the lender following the termination of the property manager or the occurrence of an event of default under the Hilton Irvine Loan documents giving rise to the right of the borrower to terminate the property manager, the property manager is permitted to pay all costs and expenses incurred in connection with the operation of the Hilton Irvine Property, including, but not limited to operating expenses and capital expenditures, and all other amounts required or permitted to be paid by the property manager in the performance of its duties and obligations with respect to the Hilton Irvine Property out of the Manager Accounts and the Approved FF&E Account.

In connection with the origination of the Hilton Irvine Loan, the borrower established a lender controlled lockbox account, subject to a lockbox account agreement which provides that the borrower will have no access to funds in the lockbox account and that all amounts in the lockbox account will be swept daily to a lender-controlled cash management account. The Hilton Irvine Loan documents require the borrower to cause all amounts otherwise required to be paid or remitted by the property manager to the borrower pursuant to the management agreement and all other cash revenues or other amounts received by the borrower with respect to the Hilton Irvine Property to be remitted directly to the cash management account or the lockbox account and, in the event that any such amounts or any other amounts in respect of the Hilton Irvine Property are paid directly to the borrower, such party is required to cause such amounts to be deposited into the cash management account or the lockbox account within one business day following receipt.

Provided that no Hilton Irvine Trigger Period or event of default under the Hilton Irvine Loan is continuing, on each business day (or less frequently at the borrower's option) all amounts on deposit in the cash management account in excess of the amounts required to be paid to or reserved with the lender on the next due date are required to be remitted to an account controlled by the borrower. On each due date during a Hilton Irvine Trigger Period or, at the lender's discretion, during an event of default under the Hilton Irvine Loan, the Hilton Irvine Loan documents require that all amounts on deposit in the cash management account, in excess of the amount required on the next due date to pay debt service and required reserves, subject to the terms of the Hilton Irvine Loan documents, be reserved in an excess cash flow account as additional collateral for the Hilton Irvine Loan. Upon the termination of the Hilton Irvine Trigger Period, assuming no other ongoing event of default, amounts held by lender in the excess cash flow account are required to be remitted to the borrower. During the continuance of an event of default under the Hilton Irvine Loan, the lender may apply all funds on deposit in any of the accounts constituting collateral for the Hilton Irvine Loan to amounts payable under the related loan documents and/or toward the payment of expenses of the Hilton Irvine Property, in such order of priority as the lender may determine.

- **Property Management.** The Hilton Irvine Property is managed by Hilton Management LLC, pursuant to a management agreement. Under the related loan documents, the Hilton Irvine Property is required to remain managed by Hilton Management LLC, or any other management company approved by the lender and with respect to which Rating Agency Confirmation has been received. The lender has the right to replace Hilton Management LLC with a property manager selected by the lender following any foreclosure, conveyance in lieu of foreclosure or other similar transaction, if the property manager has then committed or suffered to exist an event of default pursuant to the management agreement which remains uncured, for which the borrower, or a successor property owner, would have the right to terminate the management agreement pursuant to the terms thereof.