



## **STATEMENT OF ASSIGNMENT**

### **I. PURPOSE**

On March 25, 2022, the contracting officer with authority to administer the lease between Trump Old Post Office LLC (“TOPO” or “Tenant”) and the U.S. General Services Administration (“GSA”) executed a Determination and Findings (“D&F”) in which he concurred that CGI Hospitality Opportunity Fund I, LP (“CGI”)<sup>1</sup> is a qualified transferee, which is a necessary prerequisite prior to TOPO assigning its interest in the lease, and that Hilton Worldwide Holdings Inc. (“Hilton”) is a qualified operator. The contracting officer notified TOPO of his decision by letter dated March 25, 2022. This determination permits TOPO to assign the lease to CGI.

As discussed further herein, the contracting officer based his decision primarily on the strength of the partnership between CGI and Hilton, the latter of which is a publicly traded company whose net worth is approximately \$40 billion and will operate the hotel under its iconic Waldorf Astoria brand upon the closing of the transaction. The three pillars of the parties’ commitment to ensuring the financial success of the future hotel include: (1) entering into a long-term property management agreement to be effective upon the closing of the transaction; (2) providing significant equity; and (3) providing material credit support to assist with securing debt financing. The project also benefits from the personal support and involvement at the very highest levels of Hilton.

Most of the documentation relied upon by the contracting officer is marked as confidential, proprietary business information by the parties involved in the transaction. In light of the anticipated public interest surrounding the assignment, GSA is proactively issuing this Statement of Assignment to provide as much information as possible regarding the contracting officer’s decision-making process. As detailed further herein, GSA hired a third-party consultant and performed an extensive and exhaustive due diligence review of the documentation provided in support of the proposed assignment. The documentation included relevant financial information for the parties involved, and information about their expertise and experience with financing real estate acquisitions and operating hotels.

---

<sup>1</sup> CGI Merchant Group, LLC is responsible for structuring the transaction which will result in the successful execution of the transfer of the lease to the proposed transferee (CGI 1100 OPO Management, LP), a single purpose entity created to obtain the assignment from TOPO. Unless otherwise stated herein, for purposes of this Statement of Assignment, the term “CGI” refers globally to the overall CGI Merchant Group, LLC business structure.

## **II. BACKGROUND**

### **A. Basic Background regarding the Redevelopment of the Old Post Office Building**

Constructed between 1892 and 1899, the Old Post Office (“OPO”) is an approximately 400,000 gross square foot building located in the heart of the Federal Triangle on Pennsylvania Avenue, NW between 11th and 12th Streets in Washington, DC. The OPO, one of the tallest buildings in Washington, DC, features a clock tower/observation deck and a large atrium, and is listed on the National Register of Historic Places.

In October 2008, the Old Post Office Redevelopment Act was signed into law. In March 2011, GSA issued a request for proposals to the market and, in February 2012, selected the Trump Organization as the preferred selected developer. In August 2013, GSA executed a 60-year ground lease (the “Lease”) with TOPO. Construction began in May 2014 and the hotel opened in September 2016.

### **B. The Lease Permits an Assignment to a Qualified Transferee**

Section 15.3 of the Lease gives the Tenant the right to assign its interest to a qualified transferee. However, prior to any such assignment, the Tenant must provide GSA with detailed information evidencing that the proposed transferee qualifies as a qualified transferee. After the submission of the information required by Section 15.3, GSA has 45-days to confirm whether it concurs the proposed transferee is a qualified transferee.

### **C. The Proposed Assignment**

By letter dated November 24, 2021, TOPO submitted information to the contracting officer in support of a proposed assignment to a subsidiary of CGI. On December 10, 2021, the contracting officer sent a letter to Tenant requesting additional information and notifying Tenant that the 45-day review period under the Lease had not yet started. The contracting officer issued several subsequent letters to Tenant requesting additional information on January 3, 2022; January 20, 2022; and March 2, 2022.

The formal submissions from Tenant to the contracting officer in accordance with Section 15.3 of the Lease include:

- November 24, 2021
  - GSA Package Cover Letter
  - Fund H - Organizational Charts GSA
  - Fund H - Financial Package GSA

- Fund H - GSA Presentation
- December 22, 2021
  - CGI - GSA Response-2308861-v2 CL
  - CGI Funds Group Org Structure
  - Conscious Certified Hotels
  - Non-Excluded Contractor Cert 12.20.2021
  - OPO Structure Chart 12.21.2021
  - DRAFT Hilton Transaction Summary and Timeline
  - CGI Funds Group Compilation Report
- December 23, 2022
  - ProForma
- January 14, 2022
  - GSA Response 01.14.2022
  - Certificate of Registration for the District of Columbia
  - CGI Hospitality Fund & Raoul Thomas Legal Searches
  - CGI Awards, Achievements and Accolades
  - Reference Letters
- January 18, 2022
  - Additional Reference Letters
- January 25, 2022
  - Agreement of Purchase and Sale
- January 31, 2022
  - Branding and Management Agreement Key Terms
- February 1, 2022
  - CGI GSA Response 01.31.2022
  - OPO Updated Structure Chart
  - Limited Partner's Certificate
  - Fund Administrator Certificate
  - Subscription Agreement
  - Hilton Property Improvement Plan
  - CGI Funds Group Compilation Report (09.30.2021)
  - CGI Funds Group Compilation Report (12.31.2020)
  - CGI Funds Group Compilation Report (12.31.2019)
  - Limited Partnership Agreement
- March 18, 2022
  - Appraisal Property #1
  - Appraisal Property #2
  - Appraisal Property #3
  - Appraisal Property #4
  - Appraisal Property #5

- LP Agreement of CGI 1100 OPO Investors, LP
- STR Ultra Luxury Report
- 2019 Individualized HOST Report
- Appraisal Property #6
- Appraisal Property #7
- Appraisal Property #8
- March 21, 2022
  - FUND H - Appraisal A (08.13.2021))
  - Letter to GSA Holdco Note
  - Wire confirmations
  - CGI Opportunity Fund I - Subscription Documents
  - FUND H - Appraisal B (04.09.21)
- March 22, 2022
  - CGI H Fund, LP Financial Statements 2021 12.31 YTD
  - Full Subscription Document
  - Hilton CGI Investment Confirmation for GSA
- March 23, 2022
  - CGI H Fund Call Notice 03.23.2022

The parties also engaged in numerous telephone conversations and exchanged various letters and emails related to the proposed assignment that are not listed above.

In addition to the formal submissions and ancillary communications, on February 10, 2022, representatives from GSA, CGI, and Hilton met in-person to further discuss the particulars of the potential transaction. The CGI and Hilton representatives included members of its senior executive teams, including their respective Chief Executive Officers. The discussion mainly focused on the previously mentioned three pillars of the parties' commitment to ensuring the financial success of the asset. Personnel from CGI and Hilton walked the GSA representatives through the underlying assumptions and other data to support the ProForma developed to project the hotel's future, anticipated financial performance.

On February 7, 2022, the contracting officer notified Trump that GSA was in receipt of all necessary qualified transferee information to begin the 45-day review period, which would begin as of February 1, 2022. The parties also agreed to extend the 45-day review period on a day-for-day basis, after a two-business day grace period, until Tenant and/or CGI responded to any requests for additional information from the contracting officer. Unless such an extension occurred, the Lease required the contracting officer to render his decision no later than March 18, 2022. After requesting additional information by email dated March 2, 2022, which Tenant/CGI did not respond to until March 11, 2022, the contracting officer extended the due date for his decision until March 25, 2022.

#### **D. Third-Party Support Provided to the Contracting Officer**

On or around December 15, 2021, GSA awarded a task order to a financial and real estate advisory services company (the “Third Party”) to assist GSA with reviewing the documentation submitted by the Tenant relating to the proposed assignment. The scope of work required the Third Party to, among others, provide a detailed, written report evaluating the documentation submitted and advise GSA whether, in the opinion of the contractor, the Tenant has satisfied all of the terms and conditions of the Lease that are a predicate to effectuating a transfer of the leasehold interest. On March 24, 2022, the Third Party submitted its report, finding that: (1) the proposed transferee meets the requirements of a Qualified Transferee and (2) the proposed operator meets the requirements of a Qualified Operator.

#### **III. THE TRANSFEREE REQUIREMENTS**

The Lease defines a Qualified Transferee to mean:

a Transferee who (i) will use the Premises for the Permitted Use in accordance with the Applicable Standard, (ii) is authorized (or qualified) to do business in the District of Columbia, (iii) has a good business reputation and is not an Excluded Contractor, (iv) has demonstrable prior successful experience in owning and operating (either itself or a Person holding a controlling interest (which satisfies items (i), (ii) and (iii) in the definition of Control) in the transferee) a full service hotel of quality equal to or better than the Applicable Hotel Standard (which operating experience element of this clause (iv) can be satisfied if a Qualified Operator is retained at the Premises), (v) has sufficient capability to manage properties of historic significance (which clause (v) can be satisfied if a Qualified Operator is retained at the Premises), (vi) has sufficient financial capacity to perform its obligations under this Lease, and the financial condition and operating performance of the transferee is similar to or better than the financial condition and operating performance of the initial Tenant under this Lease, and (vii) has a Person holding a controlling interest (which satisfies items (i), (ii) and (iii) in the definition of Control) in the transferee that has Access to Liquidity equal to or greater than such Person’s share of the direct and indirect interests in Tenant multiplied by Thirty Million Dollars (\$30,000,000) (escalated for inflation in accordance with CPI) and a Net Worth of equal to or greater than such Person’s share of the direct and indirect controlling interests in Tenant multiplied by \$100 Million (escalated for inflation in accordance with CPI).

In his D&F, the contracting officer broke down the Qualified Transferee definition into seven separate factors, each of which is discussed in further detail below.

## A. The Proposed Assignment

According to the contracting officer, the underlying business transaction itself is fairly straightforward. CGI will secure the debt and equity to finance the transaction and enter into a long-term management agreement with the Waldorf Astoria (a luxury hotel and resort brand of Hilton) to operate the hotel. CGI is proposing to create a single purpose entity (“SPE”) named CGI 1100 OPO Management, LP to serve as the proposed transferee (*i.e.*, the entity that will obtain the assignment from TOPO).

## B. Factor One

Requires the transferee to “use the Premises for the Permitted Use in accordance with the Applicable Standard.” The Lease defines “Permitted Use” to mean “the operation of the Hotel and other facilities related to the operation of the Hotel in accordance with the Applicable Hotel Standard.” The Lease defines the term Applicable Standard to mean “Applicable Hotel Standard, Clock Tower Standard or Other Standard, as applicable.” Thus, for purposes of this Factor One, the contracting officer concluded that the Applicable Standard means the Applicable Hotel Standard.

In reviewing the Lease, the contracting officer noted that the initial Tenant was required to operate and maintain the hotel in accordance with the Initial Hotel Standard for a period of five consecutive years commencing on the Opening Date.<sup>2</sup> The “Initial Hotel Standard” meant a world-class luxury standard generally consistent in all material respects with the operations and maintenance of a pre-selected list of top luxury brand hotels in Washington, DC.<sup>3</sup> The Lease further requires the Tenant to “continue to operate and maintain the Hotel in accordance with the Initial Hotel Standard unless a Tenant Hotel Standard Decision is made by Tenant in which case, at Tenant’s option exercisable as set forth below, the Minimum Operating Standard will replace the Initial Hotel Standard for so long as the conditions that triggered the Minimum Operating Standard continue.”

The Lease further defines “Minimum Operating Standard” to mean “operation and maintenance of the Hotel at a level of quality and service and to a standard generally consistent in all material respects with (a) the criteria listed on the attached Schedule E, taking into account the Hotel, and all portions thereof, as a whole, and (b) the standard, level of quality of operations and maintenance of the hotel brands located in the District of Columbia, which are listed on the attached Schedule E, as such brands operate and maintain such properties as of the date hereof.”<sup>4</sup> Schedule E sets forth 23 criteria that must be satisfied including providing a

---

<sup>2</sup> See Lease at Section 32.1. The hotel opened in October 2016.

<sup>3</sup> See Lease, Section 32.1(a).

<sup>4</sup> Lease, Section 1.1 (emphasis in original).

comfortable establishment that is clean and reliable and floors, walls and ceilings in public areas (including guest room corridors) are in good condition. Schedule F provides a list of nationally recognized hotel brands, which includes Hilton.

Based on the above, in his D&F, the contracting officer concluded that the Lease establishes two types of hotel standards: (1) the Initial Hotel Standard; and (2) the Minimum Operating Standard. As previously stated, the Initial Hotel Standard applied for five years, after which time the hotel could be operated at a lower quality than “a world-class luxury standard,” but still needing to maintain certain minimum standards tied to nationally recognized hotel brands. The contracting officer concluded that the Lease does **not** require the proposed transferee to operate a world-class luxury hotel; although, the contracting officer noted that CGI intends to do so. Upon closing of the transaction CGI intends to operate the hotel and other facilities and associated uses related to the operation of the hotel in accordance with the Waldorf Astoria’s brand and management agreement standards, which standards, in the contracting officer’s opinion, are comparable to if not better than those on the Initial Hotel List and Schedules E and F of the Lease (of which the Waldorf Astoria’s parent brand is listed).

The contracting officer found that CGI satisfied Factor One.

**C. Factor Two**

Requires that the transferee “is authorized (or qualified) to do business in the District of Columbia.” CGI 1100 OPO Management, LP obtained and presented such a certificate to the contracting officer with an effective date of February 15, 2022. The contracting officer found that CGI satisfied Factor Two.

**D. Factor Three**

Requires that the transferee “has a good business reputation and is not an Excluded Contractor.”

**1. Good Business Reputation**

The proposed transferee is a SPE to be set up specifically for the present transaction and, accordingly, does not have any business reputation. Therefore, as part of his D&F, the contracting officer found it reasonable to look at whether the following controlling entities or people as well as the proposed operator have a “good business reputation”: (1) CGI Merchant Group; (2) Raoul Thomas; and (3) Hilton.

- a. CGI Merchant Group and Raoul Thomas:** In order to demonstrate its good business reputation, CGI submitted a set of materials to showcase awards, achievements, press

features and letters of recommendation, as well as public searches for litigation, bankruptcy, and related matters for CGI Merchant Group, LLC; CGI Hospitality Fund I, LP; and Raoul Thomas.

As part of his due diligence, the contracting officer reviewed numerous letters of reference from several individuals with knowledge of CGI and Mr. Thomas.

- Reference One
  - “Their conscientious rejuvenation of this historic property has helped improve quality of life in the area, and their business has also aided in job creation and served to further energize our hospitality industry.”
- Reference Two
  - “The South Florida project has generated countless jobs for the community and has already become both a notable destination and economic driver for our local tourism inventory. I am confident that the level of class and professionalism dedicated to the [hotel], along with the respect shown to the historic architecture, will be duplicated in their property and operations at the newly-purchased hotel in Washington D.C.”
- Reference Three
  - “[ ] has a good working relationship with the applicant and strongly supports its bid for approval to convert the Trump Hotel to a Waldorf Astoria at 1100 Pennsylvania Avenue in DC.”
- Reference Four
  - “We have enjoyed a strong working relationship with [ ], and the team at CGI. I am confident they will have great success in this new endeavor.”
- Reference Five
  - “Based on over 40 years of experience in real estate finance, I can say, unequivocally, that Mr. Thomas and CGI were exemplary borrowers – scrupulous in their reporting, punctual in their payments and professional in all our dealings. If given the opportunity, it would be my pleasure to back Mr. Thomas and CGI again.”
- Reference Six
  - “Overall, we enjoyed our experience with CGI and would continue to lend to them again in the future. We are in full support of CGI’s acquisition and believe they will be valuable members of the District’s hospitality community.”
- Reference Seven
  - “We are excited about the impact that CGI has created in [ ], in support of promoting education and molding future graduates into pursuing meaningful and rewarding careers in hospitality. We wish great success to CGI in this new endeavor and fully support them in their efforts to receive

authorization to own the Trump International Hotel at 1100 Pennsylvania Ave. in D.C.”

Additional documentation reviewed by the contracting officer regarding CGI and Mr. Thomas include:

- Hotel #1 (see below) received Deal of The Year Award by one of the leading organizations advocating for minority ownership and development in the hotel and hospitality industry;
- The South Florida Business Journal listed Mr. Thomas as a “Power Leader in Real Estate”;
- One of the top ten daily newspapers by circulation in a major northeastern state recognized Hotel #1 (see below) as one of “[the city’s] best new hotels for 2021”;
- CGI’s multi-million-dollar investment in a ground-up development project to convert the existing facilities at a Historically Black College and University (“HBCU”) into an upscale hotel and hospitality management training complex. The college will become the only HBCU nationwide with both a flagged hotel and a hospitality management training program on its campus. In addition to funding the hotel development, CGI will launch an endowment to provide financial aid to students, fund future expansion goals, and support minority and women-owned businesses in the surrounding community.

CGI provided public record searches for litigation, debtor, and tax lien, among others, for CGI Hospitality Opportunity Fund I, LP, and Raoul Thomas. The contracting officer did not find any negative information or concerns regarding CGI or Mr. Thomas.

**b. Hilton:** In reviewing Hilton, the contracting officer mainly relied on publicly available information. Hilton is one of the largest hospitality companies in the world, with over 6,000 properties comprising over 1 million rooms in over 100 countries and territories as of December 31, 2020. According to one of the world’s leading brand valuation consultancies, Hilton ranks as the world’s most valuable hotel brand. Hilton has earned numerous awards and other accolades, including:

- #1 Best Company to Work for in the U.S. 2020;
- #3 World’s Best Workplace in 2020;
- #1 Best Place to Work for Women in the U.S. 2020;
- #2 Best Place to Work for Parents in the U.S. 2020;
- #2 on DiversityInc’s Top 50 Companies for Diversity;
- Ethisphere’s 2020 World’s Most Ethical Companies; and
- 100% Score on Human Rights Campaign Equality Index.

According to public sources, Hilton indicates that it is committed to creating long-term value for its business and its stakeholders through its Environmental, Social and Governance practices. It has ranked as the Global Industry Leader on the Dow Jones Sustainability Indices for the past two years. To assist with the global pandemic, Hilton committed to donating up to one million hotel room nights across the United States to frontline medical professionals leading the fight against COVID-19.

Upon closing of the transaction, Hilton intends to operate the hotel under its Waldorf Astoria brand of iconic hotels, which indicates it is committed to personal service and culinary excellence in landmark locations around the world. Its Waldorf Astoria portfolio includes almost 10,000 keys, which includes over 30 properties located in 15 countries around the world. According to the documents submitted, the contracting officer noted that the Waldorf Astoria is generally associated with classic luxury in an iconic environment. Moreover, a recent survey shared with the contracting officer shows the Waldorf Astoria has surpassed competitors in terms of overall luxury score perception in the United States.

The above represent just a few of the points regarding the business reputation of Hilton and the Waldorf Astoria. Simply put, the contracting officer's D&F recognizes that Hilton is one of the most recognized and well-respected hotel brands in the world, and the Waldorf Astoria is recognized as one of the world's leading brands of luxury hotels and resorts.

## **2. Excluded Contractor**

The proposed transferee submitted a certification from Raoul Thomas, authorized representative, attesting that CGI is not an Excluded Contractor. The contracting officer found that CGI satisfied Factor Three.

## **E. Factor Four**

The transferee must show it "has demonstrable prior successful experience in owning and operating (either itself or a Person holding a controlling interest (which satisfies items (i), (ii) and (iii) in the definition of Control) in the transferee) a full service hotel of quality equal to or better than the Applicable Hotel Standard (which operating experience element of this clause (iv) can be satisfied if a Qualified Operator is retained at the Premises)."

As previously mentioned in Section III.B, the contracting officer concluded that the Lease establishes two types of hotel standards: (1) the Initial Hotel Standard; and (2) the Minimum Operating Standard. Also, the contracting officer further noted that the Initial Hotel Standard

applied for five years, after which time the hotel could be operated at a lower quality than “a world-class luxury standard,” but still maintaining certain minimum standards tied to nationally recognized hotel brands. The D&F notes that the Lease does **not** require the proposed transferee to have demonstrable prior successful experience in owning and operating a “world-class luxury hotel.” Rather, in the contracting officer’s judgment, this factor can be satisfied by showing that the proposed transferee has demonstrable prior successful experience in owning and operating a full-service hotel of quality equal to or better than the nationally recognized brands listed in Schedule F of the Lease.

The D&F finds that CGI Hospitality Opportunity Fund I, LP (the “Hospitality Fund”) currently owns two properties with equal qualities of the Applicable Hotel Standard. In addition, the contracting officer found that Hilton is a Qualified Operator and, as such, satisfies the operator element of this factor.

***1. Hotel #1***

CGI first acquired Hotel #1 as a separately managed account in early 2014. In 2019, the asset, formerly branded under a different hotel company, was converted to Hotel #1, a brand under Hilton, in one of the fastest hotel conversions in Hilton’s history. The hotel has 130 keys and was recently appraised at a premium over its purchase price. CGI redesigned and enhanced the property by completing the conversion of the first floor into the hotel’s lobby. The pool deck was also further upgraded, and the hotel’s spa and restaurant were redesigned and reopened. Additionally, the third floor was repurposed to create additional meeting and food and beverage space, creating additional revenue opportunities.

CGI won the ‘Deal of the Year’ award by one of the leading organizations advocating for minority ownership and development in the hotel and hospitality industry for its successful and speedy repositioning of Hotel #1 under Hilton’s umbrella. The hotel has achieved notable increases in its Average Daily Rate compared to pre-pandemic 2019, and similarly saw significant increases in departmental profit based on a year-over-year comparison.

The contracting officer recognized that CGI’s successful investment and renovation of Hotel #1 laid the foundation of a strong institutional relationship with Hilton and led to the conceptualization and execution of the parties’ strategic development agreement. The contracting officer also noted that: (1) Schedule F of the Lease lists Hilton as one of the nationally recognized benchmarked hotels; and (2) Hotel #1 is part of Hilton’s branded hotel collection.

## 2. **Hotel #2**

As one of this city's historic properties and landmarks, the property comprises three existing Art Deco buildings as well as one new building. The hotel recently completed an extensive renovation and rehabilitation effort, resulting in a like-new asset. The project comprised a fully rehabilitated group of historic buildings in the heart of the city's Art Deco district. The hotel has 130 keys and was recently appraised at a premium over its purchase price. In 2021, CGI won the 'Deal of the Year' award by one of the leading organizations advocating for minority ownership and development in the hotel and hospitality industry for its acquisition of Hotel #2. Since opening, the hotel successfully garnered an Average Daily Rate in excess of initial budget projections.

The contracting officer noted that: (1) Schedule F of the Lease lists Hilton as one of the nationally recognized benchmarked hotels; and (2) Hotel #2 is part of the Hilton's branded hotel collection.

## 3. **The Hilton as a Qualified Operator**

The Lease defines a "Qualified Operator" to mean a Person who:

- (a) is not an Excluded Contractor, and
- (b) has demonstrable prior successful experience in operating at least three (3) full service hotels of quality equal to or better than the Applicable Standard and
- (c) has sufficient capability to manage a property of historic significance. Tenant may satisfy its obligation to substantiate that the successor Operator has the capability to manage a property of historic significance by demonstrating that such successor Operator has or will retain, prior to taking over operation, an on-site employee (who shall be in a supervisory and/or managerial role) who has had successful prior experience providing facilities management services to a property of historic significance for not less than two (2) years. Tenant may satisfy its obligation to substantiate that the proposed Operator meets the criteria of a Qualified Operator if any Person, which controls such proposed Operator or is under common control with such Operator (in each case, which satisfies items (i), (ii) and (iii) in the definition of Control), qualifies as a Qualified Operator (including any partner or parent of the proposed Operator).

Regarding whether the Hilton is not an Excluded Contractor, due diligence searches did not return any negative results for members, partners, and entities affiliated with Hilton.

To support whether Hilton “has demonstrable prior successful experience in operating at least three (3) full service hotels of quality equal to or better than the Applicable Standard,” the contracting officer reviewed the following properties submitted by the proposed transferee:

(1) Property 1

- Over 150-key hotel;
- Recognized for exemplary service, achieving the Forbes Travel Guide’s 5-Star award for four consecutive years since opening, ranked in Conde Nast Traveler as a Top Hotel in its city, Travel+Leisure World’s Best Award and recently named North America’s Leading Luxury Hotel in the 2021 World Travel Awards;
- The hotel has over 6,000 sq. ft. meeting room space; 5,000 sq. ft. spa; three food & beverage outlets.

(2) Property 2

- Over 100-key resort;
- Received the Forbes 5-Star Travel Award recognition for a fifth consecutive year for both the resort and the spa as well as receiving the AAA Five Diamond award;
- The property continues to be one of the consistently awarded resorts globally and this year the resort also earned recognition as a top luxury resort by Conde Nast Traveler; Best-Travel and Leisure; U.S. News and World Resort; 2021 Wellness Travel Award-Organic Spa Magazine; Best Hotel Spa-Smart Meetings.

(3) Property 3

- Nearly 100-key resort;
- Recognized for exemplary service by Forbes, Fine Hotels Resorts and in 2020 a noted online travel website identified the hotel as Number 8 in Europe and Number 22 in the world;
- The hotel features two Michelin Star dining restaurants and a multi-award winning spa;
- The hotel has nearly 5,000 sq. ft. of meeting space; 2,500 sq. ft. spa; four food and beverage outlets.

(4) Property 4

- Over 100-key villa resort;
- Has been recognized for its exceptional, anticipatory service by the World Travel Awards, Travel+Leisure, and Forbes Travel Guide;
- Eleven food and beverage outlets.

To support whether the Hilton “has sufficient capability to manage a property of historic significance,” the proposed transferee provided the contracting officer with the following representative properties:

(1) Property 1

- Large resort-style property in the Western United States;
- Designated as a National Historic Landmark and part of Historic Hotels of America;
- Recognized repeatedly as a top resort by Condé Nast Traveler Reader’s Choice Awards, as a “Top 10 Island Escapes you Can Drive To” by U.S. News & World Report, and as a 25 Best Resorts in the U.S. by HGTV.

(2) Property 2

- A member of Historic Hotels of America, the official program of the National Trust for Historic Preservation;
- One of the longest operating hotels in America, dating back to the 19th century;
- Continues to flourish with exemplary media accolades such as Conde Nast Traveler Readers’ Choice Award, Architectural Digest 15 of the World’s Most Historically Significant Doors, USA Today 10 Best Hotels (in its city), and Cvent Top 100 United States Meeting Hotel.

(3) Property 3

- Listed on the National Registry of Historic Places. The hotel joined the Historic Hotels of America, the official program of the National Trust for Historic Preservation;
- The hotel has been managed by Hilton for over 40 years and welcoming guests for over 100 years;
- The hotel has achieved multiple awards for service from Conde Nast, AAA, Mobil, Tripadvisor, historic hotels of America Wine spectator, and been recognized for its unique food and beverage, and best place to stay in its city by countless international travel writers.

The contracting officer found that CGI satisfied Factor Four.

**F. Factor Five**

The transferee must show it “has sufficient capability to manage properties of historic significance (which clause (v) can be satisfied if a Qualified Operator is retained at the Premises).” In his D&F, the contracting officer found that Hilton, as the proposed operator for

the premises, is a Qualified Operator, and as such the contracting officer found that CGI satisfied Factor Five.

**G. Factor Six**

The transferee must show that it “has sufficient financial capacity to perform its obligations under this Lease, and the financial condition and operating performance of the transferee is similar to or better than the financial condition and operating performance of the initial Tenant under this Lease.” In his D&F, the contracting officer referred to the dictionary, which defines “capacity” to mean “the ability to do something.” Thus, put in slightly different terms, the contracting officer read this language to mean CGI must show it has sufficient financial ability to perform its obligations under the Lease. The contracting officer also noted that the Lease defines Tenant as Trump Old Post Office LLC. As discussed elsewhere, CGI will be establishing a SPE as the transferee, and Tenant itself is also a SPE. Thus, a literal reading of the language would simply require GSA to compare one SPE to another and one of those SPEs was only recently created. However, in the contracting officer’s opinion, a more appropriate reading of language would look not only at the SPEs, but also elements of the controlling or parent organizations (*e.g.*, CGI Merchant Group, LLC) as well as other sources of capital. In the contracting officer’s view, GSA’s long-term interest is to ensure, to the maximum extent feasible, that any potential transferee has the financial wherewithal and proven business track record to operate a successful hotel.

The contracting officer noted that CGI attributes part of its success in owning hospitality assets to its ability to work with world-class partners to drive economic value into the investments. Some of them include industry-leading hotel operators, global credit-worthy third-party food and beverage operators, top signage operators, spa, parking, and global brand retailers. As part of the process, CGI looks at carefully evaluating potential capital expenditures, driving cost efficiencies and synergies with other properties, selection of operating, and franchising partners, and carefully curating a business plan to allow CGI to unlock untapped value in room revenue, food and beverage and other ancillary sources of income. The contracting officer took notice that CGI has transacted billions of dollars of debt and separately managed accounts since inception with a wide array of lenders and manages hundreds of millions of dollars in equity from a diverse profile of capital partners.

The D&F notes the contracting officer’s recognition that through a formal agreement with Hilton, CGI is in the process of targeting \$650M in equity capital commitments to acquire hospitality assets and position them under the Hilton brand. In his D&F, the contracting officer heavily relies on Hilton’s involvement in the transaction. Importantly to the contracting officer, Hilton will not only serve as the intended hotel operator for the subject transaction but is an investor in the Hospitality Fund and, to provide additional support for the lender, will provide

material credit support in the form of limited debt guarantees to the lender. The contracting officer also noted that CGI's financial team counts on the support of a well-known former professional athlete and a capital partner of the Hospitality Fund and the lender.

#### *The Reserves Package*

The contracting officer's D&F discusses the importance of the reserves package, as explained by CGI in its document submissions. As noted by the contracting officer, CGI and the lender have structured a package of "reserves" to be established at closing from funds provided by CGI and will be held by the lender and released on a monthly basis to cover various operating expenses of the hotel. The reserves to be established include an interest reserve, an FF&E reserve, and a "carry" reserve. In the contracting officer's judgment, the combination of these reserves will ensure smooth and successful operations and the availability of sufficient capital to fund such operations during the course of the first few years of operation of the hotel.

For the interest reserve, the lender will release funds from this reserve on a monthly basis to allow CGI to make each monthly debt service payment that is due under the loan, making it unlikely in the contracting officer's view that CGI will fall into payment default. CGI will be required to replenish this reserve once it dips below an amount sufficient to cover six full months of interest payments.

In addition to the interest reserve, CGI and the lender have agreed CGI will establish a carry reserve. This reserve will be utilized to fund any operating shortfalls that may exist from time to time if gross revenue is less than the amount necessary to pay all operating expenses of the hotel, including ground lease payments, tax payments, and other operating expenses needed to maintain the hotel in the condition required by both the Lease and the hotel management agreement.

CGI and the lender have further agreed to establish an FF&E reserve. This same type of reserve will also be required under the hotel management agreement. The purpose of this reserve will be to establish a fund that will gradually build up over time to cover the cost of refurbishing and replacing as necessary the furniture, fixtures and equipment utilized in connection with the operation of the hotel.

#### *The Purchase Price*

The contracting officer does not have any basis to conclude that the sale value of the lease is commercially unreasonable or inconsistent with market demand. The brokerage firm hired by Tenant to market the Lease indicated to the contracting officer that there was broad interest in acquiring the leasehold interest and it received multiple offers in the same range as the sale price to CGI. Moreover, in the contracting officer's opinion, the dollar per key amount (a common metric used to evaluate the sale of hospitality assets) was on par with similar transactions.

The contracting officer and those supporting him also reviewed the financial projections and operating figures underlying the ProForma to better understand the potential likelihood CGI will be able to perform its obligations under the lease (e.g., making timely lease payments). To the contracting officer, it was important that CGI developed its ProForma in close coordination with Hilton, which, as noted previously, intends to operate the asset under its Waldorf Astoria brand upon the closing of the transaction. The contracting officer placed a great deal of confidence that Hilton's extensive experience and expertise in operating iconic assets within the Waldorf Astoria brand placed it in a strong position to develop a rational, reasonable, and achievable ProForma for the Old Post Office property. The contracting officer's D&F notes that the projected Average Daily Rates ("ADR") rates are within the ADR for the top-end luxury hotels in the Washington, DC market. Further, based on the contracting officer's discussions with Hilton's team, Hilton's market experience demonstrates its prior ability to achieve or exceed ADRs at the high-end of a given market segment. In sum, in the contracting officer's judgment, the purchase price is adequately supported by the projected financials once the asset has been stabilized under Hilton management.

#### *The Debt and Equity Financing*

The contracting officer notes that the loan to value ratio will not exceed the amount specified in the Lease.<sup>5</sup> Furthermore, the debt to capital ratio of the proposed transaction is lower than the current debt to capital ratio of the Tenant. The contracting officer understands that the sources of this equity will come from capital contributions funded by both the limited partners and the general partner of the Hospitality Fund, which is the indirect parent company of the proposed transferee. Such capital contributions will be contributed to the Hospitality Fund following a call for such capital contributions from the CGI controlled general partner of the Hospitality Fund and then will be infused in the form of equity capital contributions through each of the Hospitality Fund's subsidiaries. The contracting officer understands that any such investors are expected to be "passive" with CGI in control of decision making.

The contracting officer notes that CGI intends to generate significant value improvements to the property through the implementation of its business plan, some of which are targeted on enhancing the following areas: Food and Beverage, Room Revenue, Banquet Business, and Retail.

- Food & Beverage: CGI intends to activate three untapped F&B venues, each fully equipped with standalone kitchens, through an affiliation with best in class global and local celebrity chefs. CGI has already engaged multiple restaurant groups and is currently evaluating proposals.

---

<sup>5</sup> See Lease, Section 3.2(a).

- Room Revenue: CGI believes there is room for material improvement considering the strength of an international franchise, Hilton’s reservation system, ownerships’ business plans, property enhancements, and targeted marketing campaigns.
- Banquet: The hotel is poised to realize substantial revenue improvements, particularly banquets and catering, as a direct consequence of broadening the hotel’s marketability. Additionally, the Benjamin Terrace features 5,000 square feet of prime food and beverage and outdoor meeting space along Pennsylvania Avenue that is currently not being fully optimized.
- Retail: CGI is exploring the highest and best use for vacant retail outlets, including incorporating high end retail.

As previously discussed, the contracting officer’s D&F heavily relies on the partnership between CGI and Hilton to have the Waldorf Astoria serve as the hotel operator upon the closing of the transaction. In the contracting officer’s judgment, as a Waldorf Astoria, the hotel will benefit from an international franchise, an operator with extensive expertise in historic property management, and a robust brand engine. The contracting officer took notice of Hilton’s 100(+) million loyalty members, and that Hilton intends to maximize its relationship with its existing customer base to build excitement at the new property. The contracting officer reviewed several case studies highlighting Hilton’s track record with successfully transitioning properties:

- Case Study #1: An independent, landmark hotel transitioned to Hilton Management Services (“HMS”). Benefiting from the power of Hilton enterprises engine, the hotel surpassed previous years’ performance.
  - +\$2.9M gross operating profits
  - +39% group production
  - +78% direct web revenue
- Case Study #2: An independent hotel had been operated by a regional hotel management company with moderate success for many years. Ownership elected to convert to a Hilton branded property and transfer management to HMS.
  - +20% occupancy
  - +33.8% ADR
  - Over a two-year period, in addition to occupancy and ADR growth, GOP increased by 58.5% and RevPar increased 59.8% above previous levels.
- Case Study #3: HMS was approached by an existing ownership group and asked to take over a branded hotel. Although a rapid conversion timeline, the support from local, regional and brand management, combined with the expertise and tools available from HMS, resulted in immediate impacts on the business mix and hotel performance.
  - +124% occupancy
  - +68% ADR

- Transient business increased 23%, year over year along with catering revenue up 19% and food and beverage costs decreased by 6%.

The contracting officer also compared the documents submitted by CGI with the proposal submitted by Tenant as part of the initial competition for the redevelopment of the OPO. In particular, the contracting officer noticed that Tenant's gross operating revenues at stabilization and projected occupancy rates were very similar to those being projected by CGI. Thus, both the initial Tenant and CGI view the hotel as being able to generate significantly more revenue than is currently being generated, based in a large part in being able to bring more guests to the hotel. In addition, the initial Tenant anticipated a large portion of its revenue would be tied to its food and beverage operation, particularly its ability to partner with top restaurateurs. Tenant's ability to do so, however, was hampered when two celebrity chefs decided not to open restaurants at the hotel.

The contracting officer's D&F also relied on the Third-Party Report to support his determination for this factor, which noted:

- The anticipated financial structure to be put into place by CGI at closing is similar to or better than the financial structure currently in place by the Tenant.
- The proposed operator's published FY 2021 performance reports compare favorably with the current Tenant's performance at the hotel.
- The past performance and financial statements for CGI demonstrates its ability to support the operations of a hotel during a pandemic while at the same time creating value (as demonstrated by appraisals submitted by CGI).
- CGI has access to additional uncalled capital from investors to support unforeseen expenses.

While CGI's own operating performance as an investor in and owner of hotels is rather recent and not particularly extensive, the contracting officer noted that CGI is proposing to enter into a long-term operating agreement with Hilton to rebrand the hotel as a Waldorf Astoria. With over 100 million Hilton loyalty members and as one of the largest hotel operators in the world, the contracting officer views Hilton as having a strong track record of successfully repositioning and operating hotels.

For the reasons set forth above, the contracting officer found that CGI satisfied Factor Six.

#### **H. Factor Seven**

The transferee must show it "has a Person holding a controlling interest (which satisfies items (i), (ii) and (iii) in the definition of Control) in the transferee that has Access to Liquidity equal to or greater than such Person's share of the direct and indirect interests in Tenant multiplied by Thirty

Million Dollars (\$30,000,000) (escalated for inflation in accordance with CPI) and a Net Worth of equal to or greater than such Person's share of the direct and indirect controlling interests in Tenant multiplied by \$100 Million (escalated for inflation in accordance with CPI)."

As previously noted, upon transfer of the Lease, GSA will be in privity with CGI 1100 OPO Management, LP, a single purpose entity. Based on the documents submitted, the contracting officer found that CGI demonstrated that a "Person holding a controlling interest" satisfies the access to liquidity and net worth requirements. Accordingly, the contracting officer found that CGI satisfied Factor Seven.

#### **IV. THE THIRD-PARTY REPORT**

The Third Party found that: (1) the proposed transferee meets the requirements of a Qualified Transferee and (2) the proposed Operator meets the requirements of a Qualified Operator. In making his determination, the contracting officer relied on the report submitted by the Third Party as part of his overall analysis. But the contracting officer noted that the determination represented his own, independent judgment. The Third Party took the following steps to fully complete the review of all documentation and additional research required by the tasks in the statement of work:

- Held weekly conference calls with GSA;
- Logged all submitted documentation by the Tenant and the proposed transferee;
- Reviewed all submitted documentation;
- Conducted compliance reviews of all provided information to determine strengths, risks, and deficiencies;
- Developed document requests and follow-up questions for the Tenant and proposed transferee; and
- Met with the proposed transferee to discuss document requests and answers to questions.

It is useful to note that the Third Party developed its own analytical structure for its review of the submitted documents and decided to assign one of four color ratings to determine compliance with the terms of the Lease. While the color ratings are not required by the Lease, the Third Party awarded CGI and Hilton either a "Blue" or "Green" (the highest available) for each factor. The report defines the color ratings as follows:

- **Blue (B) – Exceptional**: Exceeds specified minimum Lease requirements in a manner beneficial to the Government; documentation provided must demonstrate the Qualified Transferee and/or the Qualified Operator has one or more strengths and no deficiencies to receive a blue.

- Green (G) – Acceptable: Meets specified minimum Lease requirements delineated in Section 15 of the Lease; documentation provided must have no deficiencies but may have one or more strengths.
- Yellow (Y) – Marginal: Does not clearly meet some specified minimum Lease requirements delineated in Section 15 of the Lease, but any such uncertainty is correctable.
- Red (R) – Unacceptable: Fails to meet specified minimum Lease requirements; documentation provided has one or more deficiencies.

While CGI and Hilton received high scores throughout the report, the Third Party noted that the transaction is not without risk. However, the contracting officer agreed with the Third Party’s conclusions regarding the transactional parties’ ability to mitigate any such risks. For instance, the report lists the following risk:

CGI and its affiliates have limited experience in managing hotels over a long period of time. Two hotels held by Fund H were recently acquired (2020 and 2021) and while they have appreciated in value during a pandemic the demonstrated success is only over short duration.

As a mitigation factor associated with this risk, the report states: “Hilton Corporation as the Qualified Operator has both an extensive background in owning and operating hotels that satisfy the Applicable Standard.”

*–End–*