

INVESTMENT REPORT
\$21,000,000 PARTICIPATING MORTGAGE
ANNAPOLIS MARRIOTT WATERFRONT HOTEL
ANNAPOLIS, MARYLAND

USF&G Realty Advisors, Inc.
100 South Charles Street
Baltimore, Maryland 21201
October 23, 1990

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Date: October 23, 1990

To: USF&G Realty Advisors Investment Committee/
USF&G Real Estate Policy Committee

From: Edward B. Moseley
Martin A. Reid

Subject: Annapolis Marriott Waterfront Hotel

I. INTRODUCTION

Enclosed for your review is an Investment Report on the Annapolis Marriott Waterfront Hotel (the Hotel). MP Associates Limited Partnership (the Borrower), purchased the Hotel in November 1989, after 22 years of operation as a Hilton Inn, and obtained the right to operate the Hotel under a franchise agreement with Marriott Corporation. Renovations are underway to bring the total number of rooms from 132 to 150, and upgrade the Hotel to a first class lodging facility. MP Associates is comprised of several individuals who together share extensive real estate and hotel operating expertise as well as substantial net worth. The proposed 11.25%, \$20,000,000 participating loan (the Loan) equates to \$133,333 per room, or approximately \$128.97 per square foot and provides USF&G with an expected total return of 14.0%. USF&G's funding is expected to occur after completion of all renovations, approximately May 1, 1990, and is subject to the issuance of a \$3,000,000 irrevocable letter of credit to guarantee debt service payments or loan default until pro forma Net Operating Income is achieved (see Exhibit I-1, Application Letter).

II. THE PROPERTY

A. LOCATION

Annapolis is within easy access of Baltimore, Washington, D.C., and the Baltimore-Washington International Airport (see Exhibit II-1, Regional Map). The recent completion of Interstate 97 places Historic Annapolis within 35 minutes driving time of downtown Baltimore. Improvements to route 50, and it's scheduled 1991 conversion to I-68, will reduce the length of time required to reach Washington from Annapolis, a trip of 33 miles which presently suffers from traffic delays during peak traffic periods.

Annapolis is both the state capital and the Anne Arundel County seat. The Hotel is prominently located on the Annapolis Harbor waterfront and Compromise Street, across the water from the City Dock and the U.S. Naval Academy, and adjacent to the Annapolis Yacht Club.

B. ACCESS

Although the traffic pattern, established in the 17th century, contributes to congestion during heavy traffic periods, the Hotel is located on a major thoroughfare which links Historic Annapolis with the Annapolis Yacht Basin, and is the main route to the City Dock and town square from the city's main traffic circles (see Exhibit II-2, Site Vicinity Map, and Exhibit II-3, Site Access Map).

The Hotel is within easy walking distance of the State Capitol, government buildings, the United States Naval Academy, all boating facilities (public and private) and the commercial and tourism district of Historic Annapolis.

The Hotel and its outdoor cafe are quite visible from the City Dock, the water, and the traffic circle at the foot of Main Street and Dock Street, which is the central location for tourist and business traffic.

C. NEIGHBORHOOD

The front of the Hotel faces Compromise Street, a two lane thoroughfare servicing downtown Annapolis. The rear of the Hotel is constructed on pilings and extends over Annapolis Harbor with a view to the City Dock. The surrounding area provides quaint shops and restaurants, restored historic churches, residences and government buildings as well as the waterfront which is dominated by sailing and motor yachts. The atmosphere is unique, and the Hotel benefits from the surrounds of a quaint city, and a stunning harbor view. The Fleet Officer's Reserve Club is adjacent to the property to the north on Compromise Street, and a marina is adjacent to the Hotel to the south (see Exhibits II-4A through II-4C, Aerial Photographs).

D. SITE

The site consists of approximately 2.2 acres, bulkheaded against Annapolis Harbor and the South River to the east and south of the Hotel (see Exhibit II-5, Building Site Plan). Approximately 335 feet of the site's perimeter is waterfront. The Hotel fronts Compromise Street on its west side and a marina with a parking facility is located on the south side of the site.

E. IMPROVEMENTS

The Hotel consists of three structures:

1. A guestroom block of 6 stories, presently containing 132 guestrooms;
2. A public space block which is 2 stories containing three meeting rooms and a ballroom;
3. The parking and pool structure of 2 stories, which will contain a new 200 seat restaurant over looking Annapolis Harbor.

The Hotel is undergoing renovations to increase the total number of guestrooms to 150, and an additional meeting room. The lobby is newly renovated, with marble floors and colonial details on the walls such as fenestrated columns and crown molding. Brass lighting fixtures and high quality furnishings finish the public areas in a first class manner.

At the rear of the Hotel, a large waterfront deck provides a walkway for strolling, and a platform for a 130 seat outdoor dining facility. A new 200 seat restaurant will be constructed

at the rear of the Hotel which will feature views of Annapolis Harbor. A sundeck and spa is planned to be built on top of the parking structure, and a fitness center will be constructed on the fifth floor of the guestroom block. All guest rooms were renovated in 1988, including new furniture, bedding and draperies, which meet Marriott standards.

The guest and public structures are of steel frame construction, clad in brick, with precast concrete floor planks and a built-up roof. The HVAC systems were recently overhauled and include new chillers. There are two elevators, a four thousand square foot ballroom and three meeting rooms. The parking structure contains spaces for 105 cars, and additional parking can be achieved because of valet parking.

Asbestos containing materials were used as fireproofing when the building was constructed. The Borrower has implemented a thorough asbestos abatement, operations and maintenance program to remove all accessible asbestos, and properly safeguard guests and employees from any exposure to asbestos containing materials.

The Borrower has substantially completed the first phase of a renovation program which will be completed in three phases. The improved Hotel will be a first class facility, equipped to service the Annapolis, Washington and Baltimore markets for tourism, state and local government, and banquet/meeting demand.

Phase I will bring the Hotel to first class standards, and meet Marriott standards. Phase II has commenced, and includes the construction of a new 200 seat waterfront restaurant; a kitchen, laundry and hotel service facilities. Phase II is scheduled to be completed by February 1991. Phase III will include demolition of an existing fifth floor restaurant, the addition of guest rooms and suites, as well as a fourth meeting room. This is scheduled to commence after completion of the waterfront restaurant, and to be completed by March 1991. Please see Exhibit II-6A, Planned Renovation and Exhibit II-6B, Building Description which provide additional details on the planned renovations and existing facilities, and Exhibit II-7, Proposed Floor Plan.

F. SOURCES AND USES OF FUNDS

The Borrower's total cost of acquiring and renovating the Hotel is projected to be \$21,699,000 which equates to approximately \$145,000 per room, or \$139.93 per square foot. The Loan will be used to repay the outstanding acquisition/construction loan of \$16,000,000, a line of credit of \$750,000 used to partially fund the renovation, and partially reimburse the partners of the borrowing entity for equity they have contributed for renovations. There is no developer or owner profit included in this amount, and it is estimated that the Borrower will have equity of \$1,699,000 invested in the Hotel above the USF&G Loan amount. (see Exhibit II-8, Sources and Uses of Funds).

III. MARKET OVERVIEW

A. INTRODUCTION

Anne Arundel County, and the State of Maryland have each experienced population growth through the 1980's, a trend which is projected to continue. From 1985 through 1990, Anne Arundel County experienced 1.5% growth, and the State of Maryland 1.2% (see Exhibit III-1, Population Trends). The Effective Buying Income of Anne Arundel County and the State of Maryland exceeds U.S. averages by 9.4% and 12.7%, respectively (see Exhibit III-2, Income Averages). These indicators reflect trends important to the Hotel,

because Annapolis relies heavily on meetings and banquets for hotel demand.

The hotel market in Annapolis is driven by several factors, most important among them are tourism, meetings and conferences, Maryland State Government, the U.S. Naval Academy and commercial demand.

Hotel tax receipts have increased by 11.8% in 1988 and by 9.0% in 1989, a period in which no rooms were added to the market. This information indicates increasing hotel rates in the City of Annapolis, and is included as Exhibit III-3, Hotel Tax Receipts.

Annapolis is visited by approximately 5,000,000 tourists per year. This market segment is drawn by the historic landmarks, boating activities, and shopping and restaurants in the Historic District. The United States Sailing and Powerboat Shows create demand for hotel rooms in the Fall, as do Navy football games, parents' weekend and recruiting activities at the U.S. Naval Academy.

The Maryland State Legislature meets for 90 days at the beginning of each year. Legislators typically take a hotel room in the Historic District for the full 90 days. Lobbyists and others affiliated with this activity also lodge at the hotels during this period.

Commercial demand is generated from a variety of businesses located in the area. A list of major employers is included as Exhibit III-4. Commerce in the area is comprised of predominately defense and electronics firms, however, the hotels in the market obtain a significant amount of business from commercial firms and associations throughout the Washington D.C. and Baltimore area.

B. ANNAPOLIS HOTEL MARKET/COMPETITIVE PROPERTIES

The supply of rooms in the Annapolis market for transient lodging totals approximately 1,300 rooms. This market is separated into two submarkets, the Historic District, where the subject is located, and Parole, at the intersection of Routes 50 and 450.

1. Historic District Market

The overall occupancy has been estimated by the Annapolis Department of Tourism to be 65%. The Historic District contains three hotels and a total of 514 rooms (including the subject property) as follows:

- (A) The Historic Inns of Annapolis is a collection of four historic inns totalling 147 rooms. The Historic Inns of Annapolis consist of:

The Maryland Inn (44 rooms) located on Church Circle across the street from the State House. The rooms are in a variety of styles and most accurately reflect the original atmosphere and decor of an 18th century inn. The Inn has a good restaurant, but limited meeting space. It was renovated and opened in 1954.

The Governor Calvert House (55 rooms) opened in November, 1984 and features more contemporary sized guest rooms as well as a 2,275 square foot banquet room.

The Robert Johnson House (39 rooms) opened in January, 1984 and is similar in style to the Maryland Inn.

The State House Inn (9 rooms) is a restored Bed and Breakfast type inn.

- (B) Loew's Annapolis Hotel (215 rooms) is the newest hotel to open near the Historic District (formerly the Radisson Hotel). Located on West Street, approximately one mile west of the City Dock, the property features many different types of guest rooms and the largest meeting space (5,500 total square feet) in the Historic District. The hotel is at a disadvantage relative to the other properties due to its location in an area bordering unattractive commercial space and a high crime area and its distance from the Historic District and the Waterfront.
- (C) The Annapolis Marriott will contain 150 guestrooms, a 4,000 square foot Ballroom and four meeting rooms. The lobby, meeting rooms and ballroom assembly areas are newly renovated, and it is the only hotel located on the waterfront.

Average Daily Rates at the Hotel have consistently exceeded those of its competition, averaging in excess of \$107.00, while the closest competitor has yet to achieve an ADR of \$95.00. In addition, the Hotel has maintained Average Occupancy of approximately 74% during the last 12 years, despite the lack of an adequate sales force, adequate hotel maintenance and a national reservations system during 1989 and 1990 (see Exhibit III-5A, Historical Occupancy). The addition of the Marriott franchise is expected to increase the Hotel occupancy over historical levels, an assumption which is supported by recent Marriott conversions (See Exhibit III-5B, Selected Marriott Occupancy Rates). A single competitor, the Historic Inns of Annapolis has exceeded the occupancy rate of the Hotel by using a concerted direct marketing effort under the direction of Leland Pillsbury, who is now running the Annapolis Marriott Waterfront. Several of the key employees of the Inns have been hired by the Annapolis Marriott. Please refer to Exhibits III-6A and B, Competitive Hotel Inventory for a summary of data on the hotels in the Historic District and the Parole Market.

2. Parole Market

The Parole Market at the intersection of Route 50 and 450 consists of five hotels. This location is at a disadvantage to the Historic District in that access to Historic Annapolis and to sailing and other waterfront activities is restricted by distance and traffic congestion in busy periods. The Parole Market services a lower priced segment of the market, and does not compete directly with the Annapolis Marriott Waterfront Hotel due to the locational disadvantage of Parole.

The five hotels in the Parole Market contain 785 rooms as follows:

- (A) Annapolis Ramada Hotel (97 rooms) - Opened in October 1985, directly across from the Annapolis Mall. The property features a 5,000 s.f. ballroom and a well appointed restaurant and entertainment lounge.
- (B) Holiday Inn (221 rooms) - Opened in 1968 and expanded to 221 rooms in 1981. The property is located off Riva Road to the south of the Annapolis Mall. The hotel features the largest meeting space in the market and more moderate rates than the hotels in the Historic District.
- (C) Marriott Courtyard (149 rooms) - was completed in March 1989. It is 1 one mile from the Route 50 interchange on Riva Road.

- (D) Econolodge (68 rooms) - Formerly the Claimant De France hotel until 1987. The property is 5 years old and features 68 rooms. No amenities or meeting rooms are available. There is no visibility from the highway and ingress and egress are very difficult from the nearest interchange.
- (E) Thrift Inn (150 rooms) - Located adjacent to the Holiday Inn is an inferior 12 year old motel. No amenities or meeting rooms are available.

3. Additions to Supply

The addition of a hotel to the Historic District is highly unlikely. This is the result of the historic designation and environmental issues related to waterfront development, and has been confirmed with zoning and planning officials of the City of Annapolis. A Residence Inn is currently under construction in Parole and no additional hotels are planned.

IV. BORROWER

A. BORROWING ENTITY

The Borrower is MP Associates Limited Partnership (MPA), a Maryland Limited Partnership whose General Partners are Pillsbury Enterprises, Inc., and Bay Lodging, Inc. Pillsbury Enterprises is wholly owned by Frederick V. Malek and Leland C. Pillsbury, and has been designated Managing General Partner. Bay Lodging, Inc. is wholly owned by Nicholas Mangione and Saul Bernstein. The Limited Partners are the four principals in the general partnerships described above plus John Greco. It is anticipated that the limited and general partnership interests of Nicholas Mangione and John Greco will be purchased by Malek, Pillsbury and an additional limited partner. The net worth of the Limited Partners as a group is well in excess of \$100,000,000.

Messrs. Malek and Pillsbury are former executives of the Hotel Division of the Marriott Corporation. They share extensive expertise in running hotels and hotel companies. Mr. Pillsbury, during his 20 years at Marriott, has personally managed a number of large hotels, and has had senior management authority at Marriott Corporation, and as the head of a management company which operated several hotels in the Baltimore area. Mr. Malek was the Chief Executive Officer of Marriott Hotels and Resorts from 1981 to 1988 (see Exhibit IV-1, Biographical Sketches). The partners of Bay Lodging, Inc. are independent businessmen with expertise in real estate development, management and hotel ownership.

B. MANAGEMENT

The Hotel will be managed by Pillsbury Hospitality Associates, an entity controlled by Leland Pillsbury. The management of the Hotel will meet the standards of the Marriott Corporation as required under the Franchise Agreement between MPA and Marriott. The Hotel General Manager is, and will continue to be, a Marriott employee. The sales staff and food and beverage managers all have several years of experience and knowledge of hotel operations and local market conditions as many of them are former employees of Marriott, the Historic Inns of Annapolis and Loew's Annapolis Hotel.

C. HOTEL OWNERSHIP

The Borrower controls the Hotel and the ground underlying the Hotel through an agreement with Compromise Street Limited Partnership (CSLP). All parties to the partnerships and other agreements relating to the Hotel will assign their interest to USF&G to insure that the USF&G

lien is on the fee interest in the building and the primary leasehold interest in the ground. Please refer to Exhibit IV-2, Hotel Ownership, which contains additional details.

V. RISK AND RETURN

A. INVESTMENT STRUCTURE

The proposed investment is a participating first leasehold mortgage in the amount of \$20,000,000. The significant features of the Loan are as follows:

- (1) An assignment of all partner's interest in the Hotel and ground lease to the benefit of USF&G.
- (2) USF&G's initial funding is contingent upon the receipt of (i) an acceptable appraisal indicating a fair market value of \$24,000,000, (ii) an audited statement of 1990 operations, (iii) an acceptable engineer's report, (iv) Marriott Corporation's representation that Marriott will operate the Hotel in the event of a transfer of ownership to USF&G, (v) satisfactory completion of all planned renovations and asbestos abatement, (vi) issuance of a \$3,000,000 Letter of Credit to USF&G.
- (3) The Loan contains a letter of credit requirement which provides USF&G with a \$3,000,000 guarantee of the Loan and debt service payments until pro forma Net Operating Income is achieved.
- (4) The interest rate is 11.25%, with a pay rate schedule as follows:
Year 1 -- The greater of 8% or net operating income not to exceed 11.25%.
Year 2 -- The greater of 9% or net operating income not to exceed 11.25%.
Year 3 -- The greater of 10% or net operating income not to exceed 11.25%.
Years 4-10 -- 11.25%.
- (5) To the extent there is accrued and unpaid interest, 100% of net cash flow will be applied to the accruals. The balance will be split on a 50/50 basis.
- (6) A contingency which permits USF&G to call the Loan if the determined value indicates a loan to value ratio greater than 95%.
- (7) A Minimum Additional Interest provision which insures USF&G a 13.8% internal rate of return up to 100% of net sales proceeds.
- (8) Incentives to the Borrower to purchase the land or extend the ground lease. The incentives include a more lenient appraisal requirement, and removal of the Loan amortization requirement.

B. VALUATION

1. Pro Forma Income and Expenses

The pro forma income and expenses have been computed based upon a review of historical operations, comparable property analysis, industry averages and the Borrower's projections. USF&G's pro forma is significantly more conservative than the Borrower's. The Most Likely scenario is based upon improved Hotel operations resulting from the renovations, new

management and the addition of the Marriott franchise. The Conservative Case is based upon Net Operating Income at historical levels, prior to the Hotel improvements, and the Optimistic Scenario is more closely representative of the Borrower's projections. The Borrower anticipates an extension of the ground lease, which will improve the security of the investment and enhance the overall yield to USF&G (See Exhibit V-1, Summary of Cash Flows and Yield Analysis, and Exhibit V-2, Property Cash Flow).

Pro forma income assumes an Average Daily Rate of \$117.91 during 1991, which represents 5.0% compounded growth of the Hotel's actual ADR for 1989, which was \$106.95. The average occupancy of the Hotel used in the pro forma of 75% is supported by the Hotel's track record of 75-80% prior to 1986, and 65-70% thereafter despite deteriorating service and physical conditions before the Hotel's loss of the Hilton franchise, combined with the expectation that the Marriott average of 80% occupancy as a chain will benefit this Hotel. The addition of a full time sales staff, which is double the size typical of a 150 room hotel, and the Marriott reservations system will further improve the Hotel occupancy.

The operating margins and gross revenue percentages allocable to room revenue, food and beverage revenue, and other sources are consistent with industry averages and Marriott averages, and the renovated Hotel will have adequate facilities to support the income projected.

The significant assumptions for income items are summarized in Exhibit V-1, Summary of Cash Flow and Yield Analysis. Expense projections are based upon historical operating margins and actual expenses adjusted for inflation, and increased for items where the need for additional expenditures has been identified, such as increased sales and marketing staff.

2. Preliminary Valuation Estimate

USF&G Realty Advisors has preliminarily estimated the value of the Hotel, as encumbered by the ground lease, to be \$24,000,000. This valuation is based upon growth rates, and residual capitalization and discount rates as outlined in Exhibit V-3A, Hotel Valuation. Each of the rates used in determining value have been supported by comparison to comparable hotel sales and valuations. The appraisal contingency requires an MAI market value appraisal of \$24,000,000, which ensures a loan to value ratio to USF&G of 83.33%.

C. ANNUAL RETURNS

The cash flows and related returns to USF&G under the Most Likely scenario are as follows:

	Year 2	Year 6	Year 10
Fixed Debt Service	\$2,160,000	\$2,556,400	\$2,556,400
Accrual Payments	0	0	0
Additional Debt Service	0	156,214	461,887
Total Cash Received	\$2,160,000	\$2,013,614	\$3,018,287
Total Cash Outstanding	\$20,000,000	\$19,697,000	\$18,088,000
Total Cash Return*	10.6%	13.8%	16.7%

* Returns shown are on Loan balance after amortization.

Please refer to Exhibits V-1, Summary of Cash Flow and Yield Analysis, for year-by-year summaries under each scenario, and Exhibit V-2, Property Cash Flow, for additional details.

D. SALE PROCEEDS

Net sales proceeds payable to USF&G will include the Outstanding Loan Balance, plus additional interest of 50% of the total sales proceeds in excess of total loan fundings, or the amount required to provide USF&G with a total return of 13.8%. It is projected that USF&G will receive 50% of sale proceeds in excess of the Initial Loan Amount at loan maturity.

E. TOTAL YIELD ANALYSIS

The projected Internal Rate of Return of 14.0% exceeds our inflation assumption of 5%, indicating a real return of 9.0%. The components of total return can be allocated as follows:

	Percent Return	Portion of Total
Fixed Debt Service:	11.8%	84.3%
Additional Current Interest:	.6%	4.3%
Additional Interest at Sale:	1.6%	11.4%
TOTAL	14.0%	100.0%

The largest portion of USF&G's return is derived from the payment of fixed interest, and thus property appreciation and cash flow growth are less important in achieving total return.

Please refer to Exhibit V-4, Sensitivity Analysis, for a summary of expected total returns under various scenarios.

F. RISK

The primary risks inherent in this investment arise from the unsubordinated ground lease and franchise agreement and the risk of the Hotel not achieving pro forma operations as a result of fluctuating room and occupancy rates. These risks can be divided into three components: market risk, operational risk, and, default risk. Each component of risk has been assessed and reduced to an acceptable level as follows:

The Hotel holds a locational advantage within the market, and serves demand from the Annapolis area (government, tourist, Naval Academy, commercial), Baltimore (tourism, meetings) and Washington. It is the only waterfront hotel in the market, and barriers to entry preclude construction of another hotel in the Historic District, thus market risk is mitigated. This reduces the possibility of negative fluctuations in income resulting from occupancy and room rate changes due to additional market supply.

Default risk is minimized by the Loan structure through letters of credit totalling \$3,000,000 which could be used to reduce the Loan amount in the event of default, and call provisions which are exercisable in the event of excessive interest accrual or reduction in property value. In the event of default the Loan amount could be reduced to \$17,000,000, a level at which USF&G's Conservative Case assumptions would provide adequate returns on the investment.

The rent due under the ground lease is based upon a percentage of gross formula, which is not subordinate to debt service. However, provisions which protect the mortgagee in the event of ground lease default or loan foreclosure protect the security in the leasehold interest, and minimize the risk of default. Please refer to

Exhibit V-5, Ground Lease Abstract, for additional details.

Default risk is also created by the Marriott Franchise Agreement, (see Exhibit V-6, Franchise Agreement Abstract) which requires a franchise fee which is computed as a percentage of gross receipts, but is not subordinate to debt service. This risk is mitigated by the income enhancement provided by access to the Marriott reservation system, expense controls provided by discount purchasing arrangements provided by Marriott, as well as improved margins from operational controls under Marriott operating procedures.

Operational risk is minimized because the Hotel is being managed by experienced hotel managers, and is also subject to the controls and operating requirements of the Marriott Corporation. Operational risk relating to the presence of asbestos containing materials is mitigated because all accessible materials will be abated prior to USF&G's funding, and because an operations and maintenance program will be in place.

In summary, the risk inherent in the investment is adequately reduced by factors of location, management, sponsorship, transaction structure, and the expected returns to USF&G.

VI. RECOMMENDATION

The Hotel is the only waterfront hotel of any kind in Annapolis, the only first class hotel in the Historic District, and barriers to entry prevent any further competition. Management of the Hotel will be performed by people experienced in running one of the best hotel companies in the United States, and experienced in the day to day operations of large hotel management. Advance bookings of meetings, weddings and banquets well into 1991 are in place and the sales staff is experienced, professional and motivated.

The strength of management, hotel franchise and sponsorship of the Borrower, as well as the unique location of the Hotel provide the opportunity to achieve a 14.0% yield despite the inherent risks that have been described. The structure of the mortgage provides security of USF&G's principal. The track record of the Hotel under mismanaged conditions indicates the strength of the location, and the enhancements made to the Hotel together with the Marriott franchise and related operational improvements, and expected occupancy increases indicate that USF&G's projections will be achieved.

The risks described (asbestos containing materials, unsubordinated ground rent and franchise payments) are mitigated by market, location and management advantages, as well as the return provided to USF&G. The current returns are projected to average 13.4%, and the total return is estimated to be 14.0%. Advisors therefore recommends approval of a commitment for a \$20,000,000 participating first leasehold mortgage under the terms and conditions outlined in Exhibit I, Application Letter. If you have any questions regarding this report, or wish to discuss it, please call Ed Moseley.



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October 24, 1990

Mr. Leland C. Pillsbury
President
Pillsbury Enterprises, Inc.
25 West Street
Annapolis, Maryland 21401

SUBJECT: Annapolis Marriott Waterfront Hotel
Participating First Mortgage

Dear Lee:

This letter summarizes the terms and conditions under which USF&G Realty Advisors is prepared to recommend to its Investment Committee that it authorize the issuance of a Commitment for a participating first mortgage loan (Loan) on the improvements and leasehold interest in the property described below.

Property: Annapolis Marriott Waterfront Hotel

The Property is located at 80 Compromise Street, Annapolis, Maryland. Upon completion of renovations currently underway, the hotel will contain 150 guest rooms, a 4,000 square foot ballroom, four meeting rooms, a health and fitness center, a 200 seat, full service restaurant with outdoor seating for an additional 130 people, and parking for at least 113 vehicles. The waterfront site on which the hotel is located contains approximately 2.2 acres. The Loan will be secured by the building and leasehold interest in the land, as described under "Collateral" below.

Personal Property: All personal property, furnishings, fixtures and equipment used in the operation of the hotel, and food and beverage operations will be additional security for the Loan.

Borrower: MP Associates Limited Partnership, a Maryland limited partnership consisting of the following partners:

Pillsbury Enterprises, Inc. general partner
Bay Lodging, Inc. general partner

Frederick V. Malek limited partner
Leland C. Pillsbury limited partner
Saul H. Bernstein limited partner
Nicholas Mangione limited partner
John M. Greco limited partner

Letter of Credit: ✓

Prior to Initial Funding, the Borrower shall issue Lender two unconditional, irrevocable letters of credit totalling \$3,000,000 to guarantee (a) payment of debt service, and (b) conformance with

all Loan provisions. In the event of Loan default, for any reason, USF&G will receive the entire amount of proceeds available from the letters of credit. USF&G must approve the financial institution which will issue the letters of credit. The first letter of credit will be in the amount of \$1,000,000 and the second letter of credit will be in the amount of \$2,000,000. The letters of credit will expire on the earlier to occur of (a) the maturity date of the Loan, or (b) after full reduction of the face amount of the letters of credit as described below.

The first letter of credit (\$1,000,000) will be reduced quarterly by \$0.50 for each \$1.00 of annualized Net Operating Income (NOI) (less replacement reserves) in excess of \$1,400,000. ★

The second letter of credit (\$2,000,000) will be released when annual NOI (less replacement reserves) exceeds \$2,400,000. Audited financial statements of the Property will be used to verify NOI, and in determining whether or not the second letter of credit shall be released.

Annualized NOI ^{for both letters of credit} will be reduced by the percentage increase in the Consumer Price Index from the date of Initial Funding to the date of the quarterly or annual review, whichever is applicable.

Lender: USF&G Corporation and/or affiliates (USF&G).

Loan Amount: Up to \$20,000,000.

Contract Interest Rate: 11.25% compounded monthly. The Contract Interest Rate shall be applied monthly to the Outstanding Loan Balance, which shall be the Unamortized Principal Balance plus accrued and unpaid interest. The Unamortized Principal Balance shall be the sum of a) the Initial Funding less b) any repayment of principal made by Borrower during the Loan term.

Amortization: The Loan will require interest payments ^(only) for Loan years one through four. Commencing on the first day of the fifth Loan year, the Loan will be paid according to a 20 year amortization schedule. In the event that the ground is purchased by Borrower, or the ground lease is extended to a term of at least 99 years, the Loan will require payment of interest only through the entire term of the Loan. ★

Pay Rate: The pay rate will be applied to the Outstanding Loan Balance as follows:

<u>Loan Year</u>	<u>Pay Rate</u>
1	Greater of 8% or Net Operating Income not to exceed 11.25%
2	Greater of 9% or Net Operating Income not to exceed 11.25%
3	Greater of 10% or Net Operating Income not to exceed 11.25%
4-10	11.25%

After payment of interest at the Pay Rate, 100% of Net Cash Flow (as defined below) will be paid to USF&G until all accrued and unpaid interest is paid. At such time that all accrued and unpaid interest has been paid, Net Cash Flow shall be split 50/50 between Borrower and Lender.

Net Operating Income:

Net Operating Income shall be defined as gross receipts of the Property from all sources less operating expenses. Operating expenses will not include debt service or replacement reserves or incentive management fees paid or payable to the manager.

Any revenue generating activities which are added to the hotel at a future date (e.g. additional parking, swimming facilities, or a marina) shall be included in hotel operations to determine Net Operating Income.

Maximum Accrual:

Interest is allowed to accrue on the Loan unless (a) the loan to value ratio exceeds 95% of the appraised value, or (b) Net Operating Income is below \$2,500,000. At such time as the loan to value or Net Operating Income requirements are not met, the Lender will require Borrower to (a) pay debt service at the Contract Interest Rate, or (b) pay down the Outstanding Loan Balance so that the loan to value ratio does not exceed 95%, the requirement to be determined at Lender's sole discretion.

The value, for purposes of the loan to value review, will be determined by multiplying Net Operating Income times 8.7. In the event the ground is purchased or the ground lease is extended to a term of at least 99 years, the multiple of 8.7 will be increased to a multiple of 10.0 to determine value. This provision will not commence until the calendar year ending December 31, 1992, at which time the first review will be conducted.

Term:

10 years; Lender will have the right to extend the Loan to a term of 25 years.

Call Option:

The Lender may call the Loan at any time after the sixth month of the fifth Loan year (54 months). The Lender will provide Borrower with 180 days notice of its intent to call the Loan (so that Lender may give notice of its intent to call the Loan on the first day of the fifth Loan year and payment of the Outstanding Loan Balance must be received by the first day of the sixth month of the fifth Loan year, which is 54 months from Initial Funding), and no Prepayment Penalty or Mortgage Yield Maintenance Fee will be charged if the Loan is called after the sixth month of the fifth Loan year (54 months following Initial Funding).

Notwithstanding the paragraph above, if the loan to value ratio exceeds 95% in any year and Borrower does not meet the Lender's required remedy, (paydown of Outstanding Loan Balance or payment of interest at the Contract Interest Rate) then Lender shall have the option to call the Loan immediately due and payable.

Prepayment Penalty: No prepayment is allowed before the sixth month of the fifth Loan year. If the Loan is prepaid prior to the sixth month of the fifth Loan year due to default, there will be a prepayment penalty equal to the greater of 10% of the Outstanding Loan Balance or the Mortgage Yield Maintenance Fee (in accordance with the calculation provided in Exhibit A) plus 50% of the difference between the appraised value (as determined by an MAI-designated appraiser approved by Lender) and Initial Funding.

Notwithstanding the paragraph above, during the period in which letters of credit are outstanding Borrower shall be allowed to prepay the Loan subject to payment of the greater of (a) Additional Interest from Sale, Refinancing or Maturity (paragraph B on page 5), or (b) Lender's Minimum Additional Interest, plus (c) 1% of the Outstanding Loan Balance. ✓

Commitment Fee: \$200,000 paid in cash which is earned upon acceptance of the Commitment.

Initial Funding: \$20,000,000 to occur on May 1, 1991 subject to the conditions listed below.

Conditions To Funding: Prior to Initial Funding, MP Associates will have;

- ✓ 1. Completed to USF&G's satisfaction all planned renovations, including but not limited to, lobby renovations, first and second floor renovations relating to the ballroom/banquet facilities and meeting rooms, completion of a 200 seat waterfront restaurant, completion of 18 additional guest rooms, a health and exercise facility, improvements to the parking facility and hotel entrance, and any additional improvements which will be more fully described in the Loan commitment.
- 2. Completed the asbestos abatement program to USF&G's satisfaction and have an asbestos operation and maintenance program in place;
- 3. Obtained the Marriott franchise and operate the hotel as a Marriott Hotel;
- 4. Obtained audited financial statements for the Hotel and the Guarantors as of December 31, 1990.
- 5. Obtained representation from Marriott Corporation that the franchise agreement will remain in place, and that Marriott Corporation will manage the Property in the event of a foreclosure.

Additional Interest:

A. Operations: Borrower shall pay USF&G Additional Interest equal to 50% of the annual Net Cash Flow from operation of the Property after repayment of all previously accrued but unpaid interest. The term "Net Cash Flow" shall mean the excess of (a) collected gross income less (b) the sum of (i) actual and approved capital and operating expenses for the Property, and, (ii) interest at the Pay Rate on the Outstanding Loan Balance. Additional Interest payments shall be payable quarterly. Operating expenses will not include any

incentive management fees paid or payable to the manager.

Notwithstanding the above, if at the end of any year the loan to value ratio is in excess of 95%, USF&G will be entitled to 100% of the Net Cash Flow, which will be applied against the Outstanding Loan Balance.

**B. Sale, Refinancing
or Maturity:**

If Borrower sells the Property in a bona fide sale, refinances the Property, the maturity date occurs or Lender exercises its Call Option, then the Borrower shall pay USF&G Additional Interest equal to 50% of the difference between (a) the net sales price for the Property (i.e. the gross sales price less sales expenses not to exceed 3.0% of the gross sales price) or net refinance proceeds, or appraised value (as applicable) over (b) the Initial Loan Balance plus subsequent Loan fundings, provided, however, that USF&G's yield (IRR) is equal to or greater than 13.75%. If Lender's yield is less than 13.75% then USF&G's Minimum Additional Interest will be increased to an amount that provides USF&G with a 13.75% yield (see Exhibit B for the calculation of Minimum Additional Interest).

Loan Provisions:

The following Loan provisions will be included in USF&G's Loan documents.

A. Budgets:

USF&G shall have the right to review and approve the annual operating and capital budgets.

**B. Secondary
Financing:**

Secondary financing is not permitted without Lender's prior written consent.

C. Reporting:

During the term of the Loan, Borrower shall submit monthly operating statements in a form acceptable to USF&G.

**D. Right of First
Offer:**

If Borrower intends to sell or transfer the Property, it shall first offer the Property to USF&G.

E. Accountant:

Borrower will engage an accounting firm satisfactory to USF&G to perform an annual audit of the Property. Additionally, during the term of the Loan Guarantee and Construction Guarantee, audited balance sheets and income statements of the Limited partners shall be provided annually to USF&G.

F. Appraisal:

The Borrower will provide annually to USF&G a market value appraisal of the Property from an MAI-designated appraiser approved by USF&G, and in conformity with the Code of Practices of the American Institute of Real Estate Appraisers. The cost of the appraisal will be an approved operating expense of the Property.

Mr. Leland C. Pillsbury
October 24, 1990
Page 6

**G. First Right
to Negotiate:**

USF&G will be given the first right to negotiate for any future financing of the Property and the land encumbered by the ground lease.

**H. Transfer of
Ownership:**

All transfers are subject to Lender's approval and will be restricted to entities owned and controlled by Leland C. Pillsbury and Frederick V. Malek. It is anticipated that the limited partners of MP Associates Limited Partnership will increase their ownership on a prorata basis by purchasing the partnership interest of John M. Greco. It is also anticipated that Leland C. Pillsbury and Frederick V. Malek (plus an additional limited partner) will purchase Nicholas Mangione's partnership interest. USF&G retains the right to review and approve the financial condition of the party whom, together with Frederick V. Malek and Leland C. Pillsbury, intend to purchase Nicholas Mangione's limited partnership interest. Finally, it is intended that these partnership transfers will not have a material effect on any other term or condition in this letter of application (i.e. the liquidating partners will be removed from joint and several guarantees and the new and remaining partners will be held liable for joint and several guarantees).

**I. Environmental
Indemnity:**

The Borrower will represent that there are no hazardous materials located on the Property except for certain asbestos containing materials. The Borrower and its partners will indemnify USF&G from any and all liability resulting from the presence of hazardous materials in the land and building and from any and all liability resulting from asbestos containing materials located in the building.

Contingencies:

The Commitment shall be subject to the following contingencies.

**A. Economic Due
Diligence:**

The Commitment will be contingent upon USF&G Realty Advisors being satisfied with the results of its economic due diligence.

B. Engineering:

Lender will administer the engagement of an inspecting engineer to review the plans and specifications and to perform a review of the Property. USF&G reserves the right to review and approve the scope and substance of the inspection. USF&G must be satisfied with the results of the inspection. All costs associated with the engineering review will be paid by Borrower.

C. Environmental:

USF&G shall receive an environmental study of the Property by an environmental firm approved by USF&G which demonstrates to USF&G's sole satisfaction that there are no environmental hazards or hazardous or toxic materials existing upon or affecting the Property. All costs associated with the environmental study will be paid by Borrower. Asbestos abatement will have been performed to USF&G's satisfaction.

**D. Committee
Approval:**

This Application Letter must be approved by the appropriate USF&G Investment Committee(s).

**E. Market Value
Appraisal:**

USF&G must receive and approve, in form and substance, the results of a market value appraisal of the Property from an MAI-designated appraiser (in conformity with the Code of Professional Ethics and Standards of Professional Practices of the American Institute of Real Estate Appraisers) approved by USF&G, stating that the market value of the Property is at least \$24,000,000. The cost of the appraisal will be paid by Borrower.

**F. Title Company
Approval:**

USF&G reserves the right to review and approve the condition of the title, title insurance and the property survey. All costs associated with the title, title insurance and property survey will be paid by Borrower.

**G. Closing
Cost:**

All costs associated with the closing of the Loan, including USF&G's attorney's fees, will be paid by Borrower.

**H. Management
Fees:**

Property Manager shall be entitled to earn current market management fees not to exceed 3.0% of Actual Gross Collected Income.

**I. Partnership
Documentation:**

USF&G reserves the right to review and approve all partnership documents.

**J. Financial
Statements:**

USF&G reserves the right to review and approve the most recent audited partnership financial statements (income statements and balance sheets), and the audited personal financial statements of the partners.

K. Collateral:

USF&G reserves the right to review and approve the leasehold interest in the Property to determine that the collateral is the equivalent of a first lien on the fee interest in the building and the primary lessee position in the ground lease. The documents to be reviewed to determine the sufficiency of the collateral will include, but will not be limited to:

1. Hotel Agreement dated October 5, 1989,
2. Ground Lease dated November 6, 1989,
3. Lease Agreement between Compromise Street Limited partnership and MP Associates Limited Partnership,
4. Limited Partnership Agreement of Compromise Street Limited Partnership,
5. Agreement of Limited Partnership of MP Associates Limited Partnership and;
6. Any other agreement or document effecting the leasehold interest or ownership of the Property.

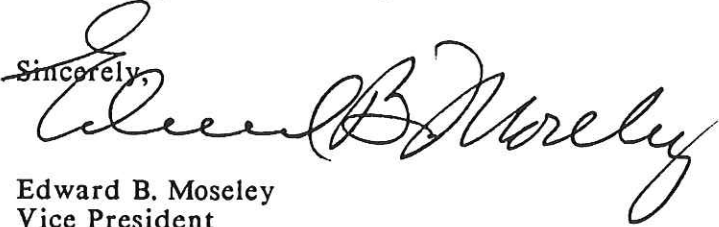
Mr. Leland C. Pillsbury
October 24, 1990
Page 8

In addition to the above items, any lease entered into by MP Associates Limited Partnership, its partners, or any affiliate of the partners, for the property adjacent to or related to the Property (e.g. parking lots, marina and swimming facilities) will be included as additional collateral.

- L. Replacement Reserves:** An escrow account will be established and funded monthly and will be used to fund capital improvements to the Property and the replacement of furniture, fixtures and equipment. The amount to be deposited in the account each month will be 3% of gross revenue and must conform with the Marriott Franchise Agreement. This requirement will be reduced to 1% during the first Loan year and 2% during the second Loan year. At Loan maturity any remaining funds in this escrow account will be distributed in the same manner as Additional Interest at Sale, Refinancing or Maturity. If at any time the balance of the reserve (less planned disbursements) exceeds \$1,000,000, USF&G will waive the reserve requirement until such time as the balance falls below \$1,000,000, provided the Borrower will not be in violation of the Marriott Franchise Agreement.

Please sign below and return this letter by October 26, 1990. Concurrently, an Application Fee of \$50,000 should be wired to a custodial account, if not previously wired. Please call me for wiring instructions. The application fee will be returned to MP Associates Limited Partnership (less reasonable and documented out-of-pocket expenses incurred by USF&G and/or USF&G Realty Advisors) if USF&G does not issue a Commitment according to the terms outlined in this letter. The application fee will be earned by USF&G upon issuance of a Commitment according to the terms outlined in this letter. The \$50,000 application fee will be applied to the \$200,000 Commitment Fee owed USF&G by MP Associates Limited Partnership. This letter supersedes all earlier letters of application.

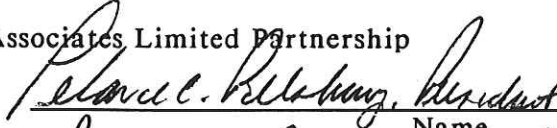
Sincerely,


Edward B. Moseley
Vice President

Accepted:

MP Associates Limited Partnership

By:



Name
Pillsbury Enterprises, Inc., GP.

Title

10/24

Date

Exhibit A

MORTGAGE YIELD MAINTENANCE FEE CALCULATION

The Mortgage Yield Maintenance Fee at a specific time ("n" years) will be calculated as follows using a Treasury Note Rate which will be the yield on U.S. Treasury Notes that mature when the mortgage would have matured, i.e. Notes that mature in 10-n years:

times:	Mortgage Balance in year n <u>Compound Amount of \$1, 11.25%, 10-n years</u>
(A)	Compound Amount at Interest Rate
times:	Mortgage Balance in year n <u>Compound Amount of the Treasury Note Rate, 10-n years</u>
(B)	Compound Amount at Treasury Note Rate
less:	(A) Compound Amount at Interest Rate <u>(B) Compound Amount at Treasury Note Rate</u>
times:	(C) Lost Interest from year n to year 10 <u>Present Value of \$1, Treasury Note Rate, 10-n years</u>
equals:	(D) Mortgage Yield Maintenance Fee due at year n

Exhibit B

CALCULATION OF THE MINIMUM ADDITIONAL INTEREST AT SALE, REFINANCING OR MATURITY

The Minimum Additional Interest is that amount which must be paid to Lender at sale, refinancing or maturity so that Lender's annual yield (IRR) is equal to 13.75%. The Minimum Additional Interest is calculated as follows:

	Lender's Initial Funding
-	Present Value of Lender's Annual Interest Payments @ 13.75%
-	Present Value of Lender's Annual Additional Interest from Cash Flow @ 13.75%
-	Present Value of Any Loan Repayments @ 13.75%
-	<u>Present Value of the Outstanding Loan Balance @ 13.75%</u>
=	Present Value of Minimum Additional Interest
x	<u>Compound Amount of \$1, 13.75% to Date of Sale, Refinancing or Maturity</u>
=	Minimum Additional Interest

If Minimum Additional Interest is greater than 50% of the difference between (a) the net sales price for the property (i.e. the gross sales price less sales expenses not to exceed 3% of the gross sales price) over (b) the Outstanding Loan Balance (less any accrued or unpaid interest), then the Additional Interest Due shall be the Minimum Additional Interest.

Exhibit II-1 Regional Map

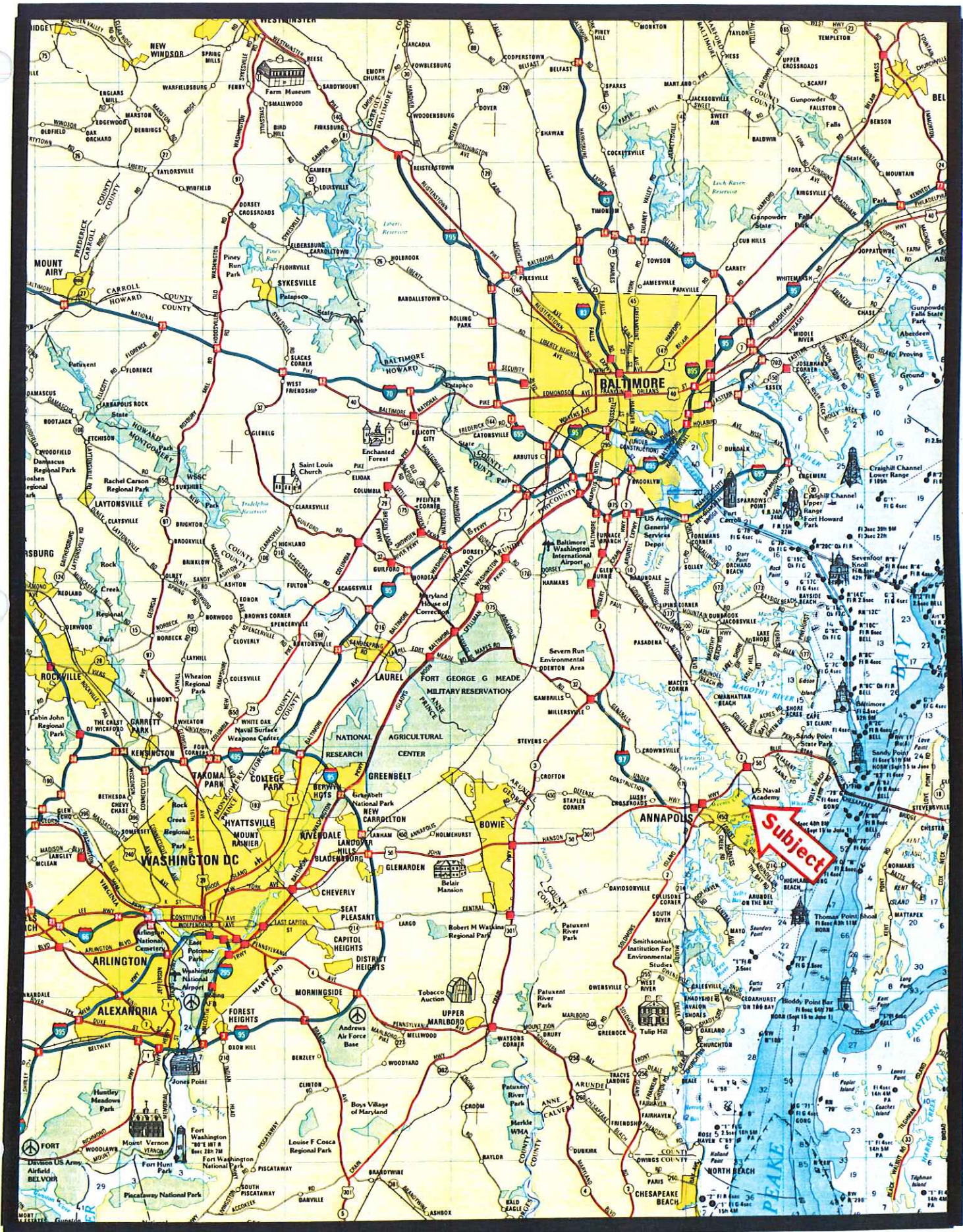
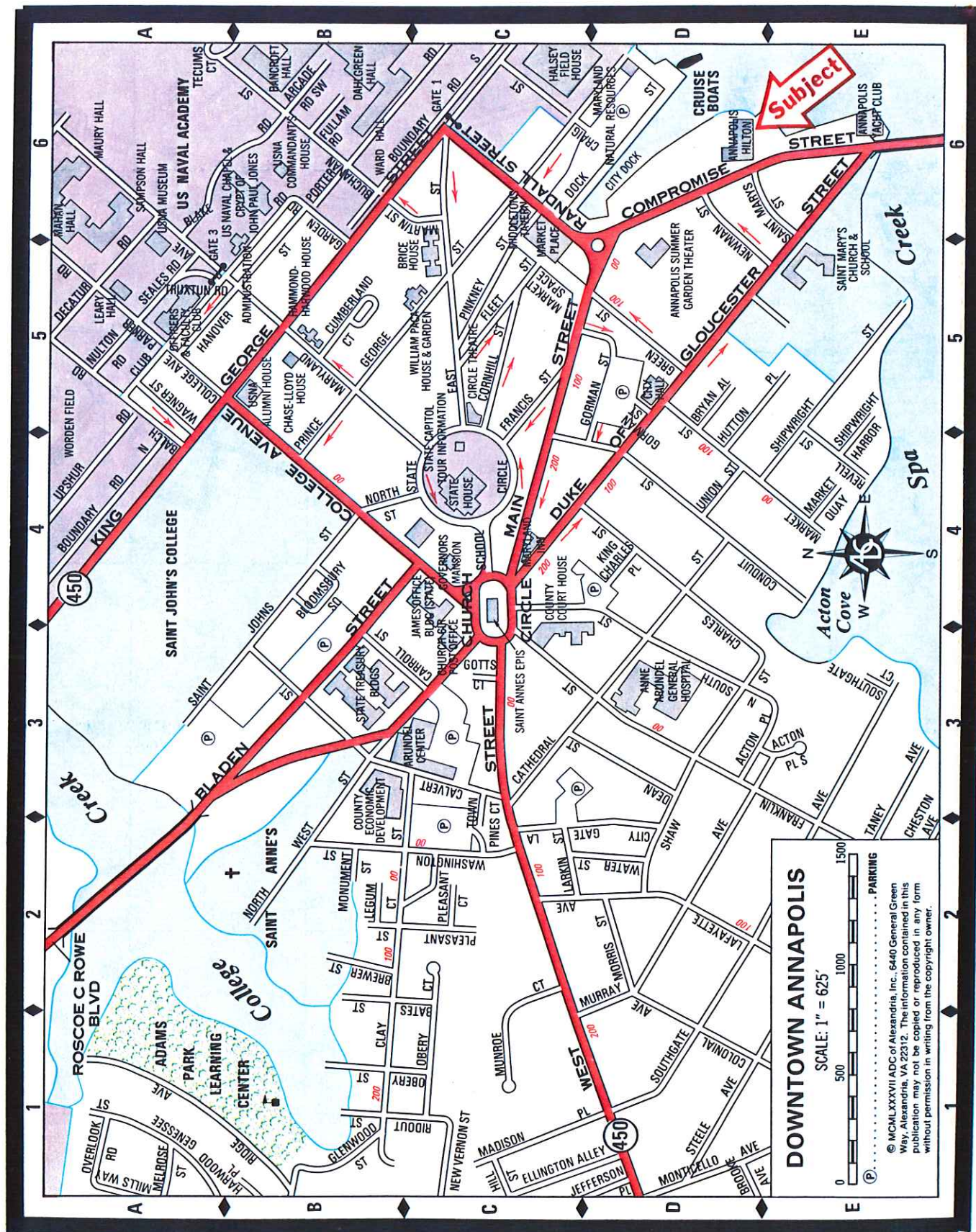


Exhibit II-2
Site Vicinity Map



Exhibit II-3 Site Access Map



DOWNTOWN ANNAPOLIS
SCALE: 1" = 625'

0 500 1000 1500

..... PARKING

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EXHIBIT II-4A
AERIAL PHOTO



EXHIBIT II-4B
AERIAL PHOTO

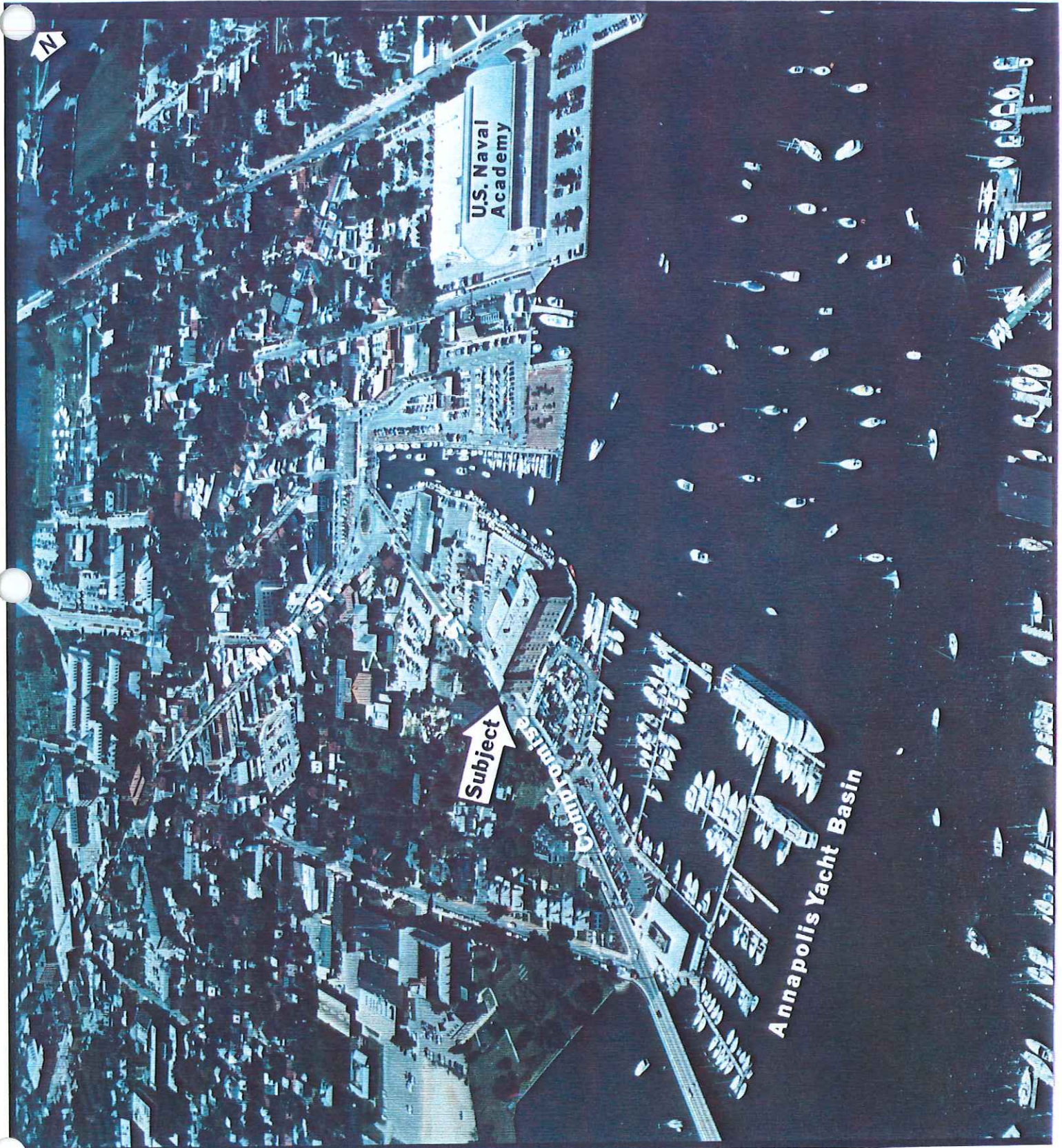


EXHIBIT II-4C
AERIAL PHOTO

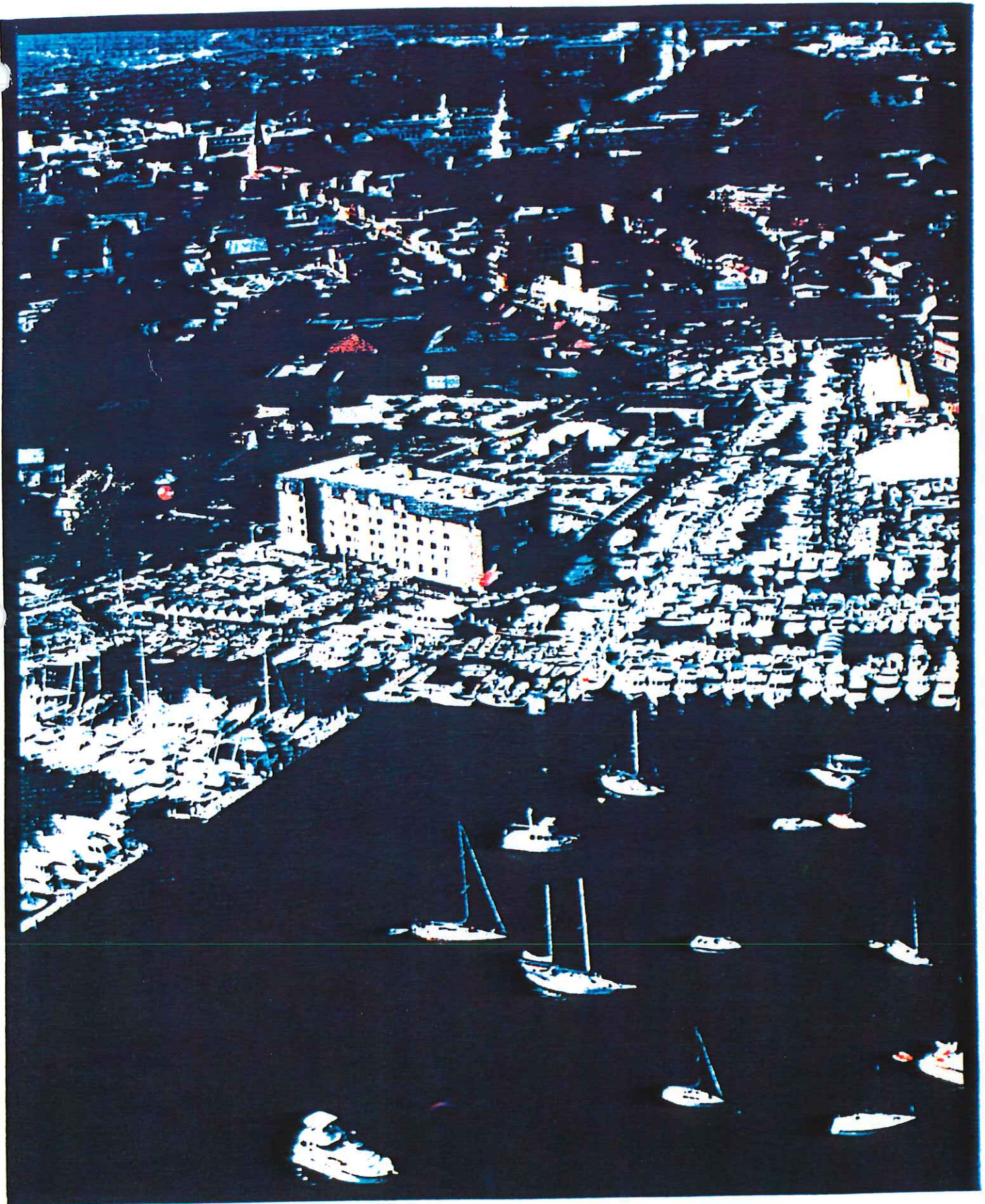
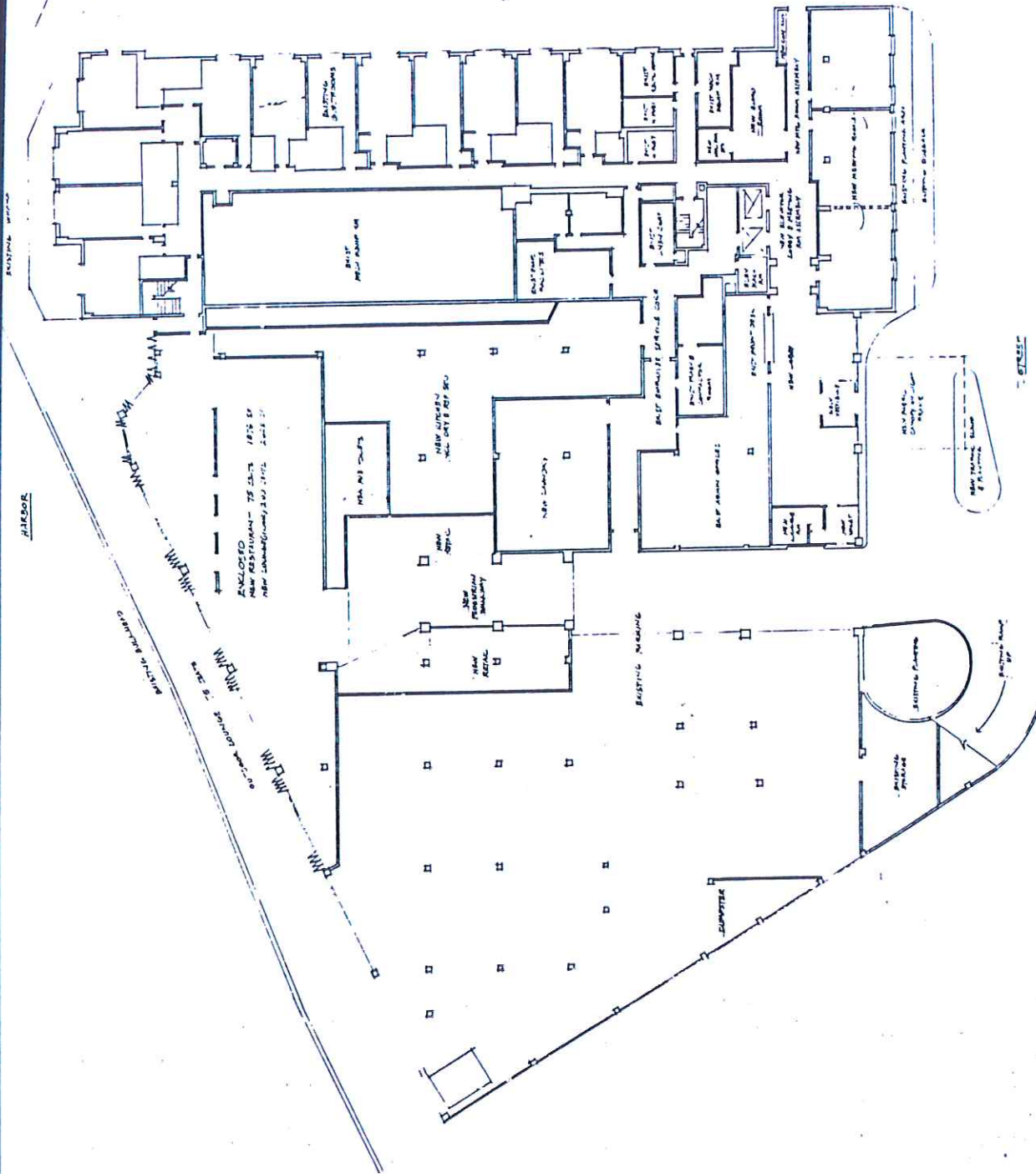


EXHIBIT II-5 BUILDING SITE PLAN



LOBBY LEVEL (STREET LEVEL)
HOTEL MARYLAND
ANNAPOLIS MARYLAND
800 CAMPBELL STREET
PROPOSED MODIFICATIONS
7 AUGUST 1989
SHEET 2 OF 4



Exhibit II-6A
RENOVATION PLAN

Phase I

Phase I is intended to bring the property up to Marriott standards, and the standards of a first class hotel, and focuses on the guestrooms and public areas. This phase is largely completed, and includes:

1. Repair (and replacement where necessary) of major building systems. The HVAC cooling tower, chiller and piping to each fan coil unit has been inspected and reconditioned or replaced.
2. Complete renovation of the lobby, front desk and administrative offices, installation of marble lobby and restroom floors.
3. Complete renovation of elevator cab decor and elevator lobbies.
4. Addition of three new meeting rooms adjacent to the lobby area, including a new coat room.
5. Renovation of the main ballroom and assembly areas including replacement of the sound system.
6. All public restrooms will be updated and renovated to meet handicap accessibility standards.
7. Any guestroom punch list items will be completed.
8. Install sprinkler and life safety systems for public areas.
9. New signs and exterior lighting.
10. Renovation of the Afterdeck Lounge.
11. Repair and replacement of dock electricity and water hookups.
12. New telephone system.
13. Installation of Marriott reservation system and Hummingbird Property Management System.
14. Addition of two exterior hot tub/spas.
15. Complete asbestos abatement as required.

Phase II

This phase has begun and has been planned to keep the impact on guests to a minimum. The work does not intrude on the public space of the Hotel. The fifth floor restaurant will continue operating during this phase, which includes the following:

1. Addition of a 200 seat waterfront restaurant.
2. Integration of the new restaurant with the existing Afterdeck and Foredeck lounges.

3. Complete new kitchen and laundry.
4. Renovations to the hotel service areas.
5. Modification to parking areas providing for additional spaces on the upper level.
6. New entrance for the waterfront restaurant.

Phase III

Phase three will begin upon completion of the waterfront restaurant. The construction on the 5th floor will have minimal impact on guests due to the lower occupancy during the winter season, and through efforts of the hotel staff to isolate guests from noisy areas. This phase includes the following:

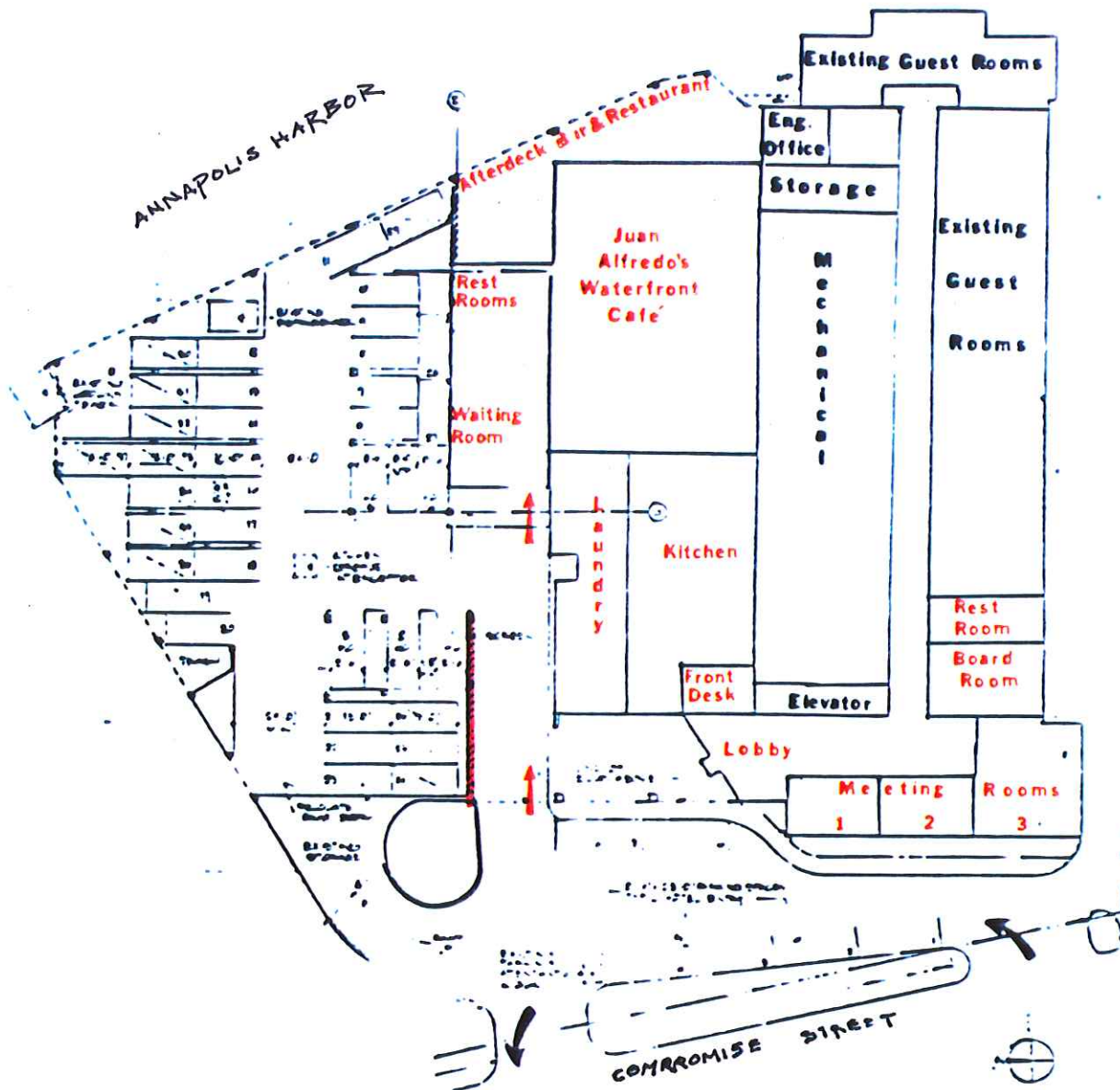
1. Elimination of the existing Penthouse Restaurant, lounge and kitchen.
2. Addition of 18 guestrooms, including two suites.
3. Addition of an exercise facility.
4. Installation of sprinklers throughout the remainder of the guestroom tower.
5. Upgrading of vending areas.
6. Addition of a fourth meeting room across from the ballroom.

This phase will take approximately 6 to 8 weeks to complete and will be finished by the start of the Spring season.

Exhibit II-6B
BUILDING DESCRIPTION

Foundation:	Steel reinforced concrete pilings
Area:	155,070 Total square feet including parking
Rooms:	132 Guest Rooms 4 Meeting Rooms 4,000 Square foot Ballroom
Bulkhead:	Concrete and timber
Exterior:	Brick walls and shingle covered mansard roof overhang
Framing:	Steel, concrete and masonry
Windows:	Anodized aluminum framed glass; sliding doors in rooms with balconies.
Typical Guest Room:	14' x 28' containing guest closet and 6' x 9' bath. One room on second level and 4 rooms on penthouse level have parlors.
Heating:	Two central low pressure steam boilers with fan coil units in each room. Each room individually operated.
Air Conditioning:	247 ton Trane chiller system; fan coil units in each room.
Ventilation:	Centralized and piped through 16 separate units for guest rooms; separate units for lobby, meeting rooms, restaurants, and corridors.
Electric:	208 volts; 3400 amps; 3-phase 120/208.
TV Antenna:	One master antenna.
Elevators:	Number: 2 Size: 7' x 7' 10" Capacity: 2500 lbs. Make: Otis
Stairs:	Steel and concrete, located along side elevator at end of guest wing.
Roof:	Built-up slag; Turne Plate tin roofing with shingle roof overhang.
Flooring:	Ground Level: concrete slab on grade First Floor and above: 4 1/2" flat slab concrete construction.

Exhibit II-7A
Proposed Floor Plan



GROUND FLOOR

Exhibit II-7B
Proposed Floor Plan

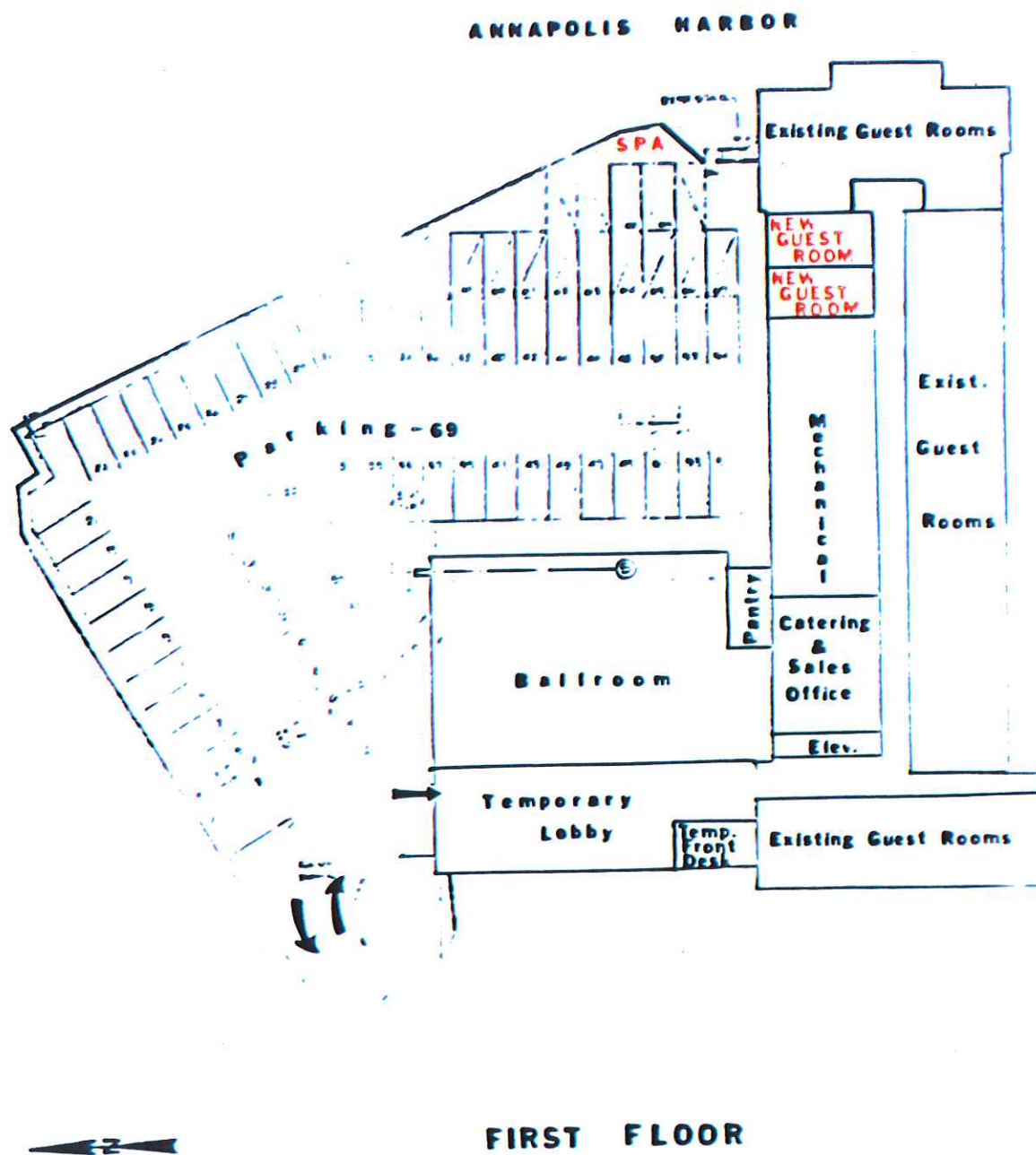


Exhibit II-7C
Proposed Floor Plan

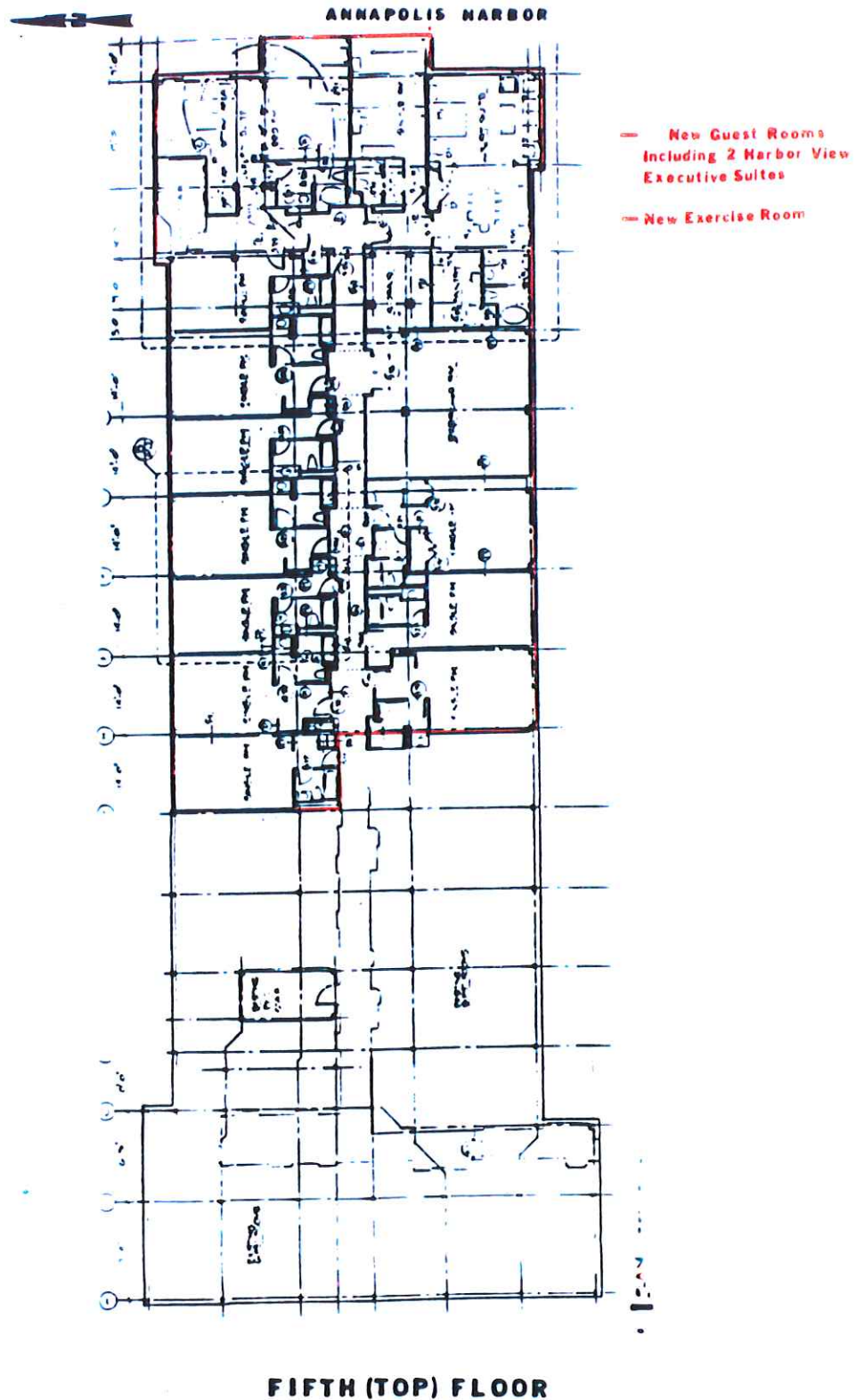


Exhibit II-8
Sources and Uses of Funds

<u>Source of Funds</u>	<u>Total</u>	<u>Per Rm.</u>	<u>Per S. F.</u>
Participating First Mortgage Loan	\$20,000,000	\$133,333	\$128.97
Partnership Equity	<u>699,000</u>	<u>11,327</u>	<u>10.96</u>
	<u>\$21,699,000</u>	<u>\$144,660</u>	<u>\$139.93</u>
<u>Uses of Funds</u>			
Acquisition of Hotel Subject to Ground Lease	\$16,000,000	\$106,667	\$103.18
Renovation Costs	4,007,000	26,713	25.85
Financing Fees & Carry Costs	992,000	6,613	6.40
Contingency & Working Capital	<u>700,000</u>	<u>4,667</u>	<u>4.51</u>
	<u>\$21,699,000</u>	<u>\$144,660</u>	<u>\$139.93</u>

Exhibit III-1
Population Trends

	Anne Arundel County	Baltimore Region*	Maryland
1950	117,392	1,457,181	2,343,001
1960	206,634	1,803,745	3,100,689
1970	298,042	2,071,016	3,923,897
1980	370,775	2,174,023	4,216,975
1985	397,800	2,222,800	4,393,000
1990**	428,000	2,324,400	4,666,200
1995**	449,300	2,379,700	4,853,800
2005**	477,700	2,482,900	5,135,150

* Represents Baltimore City and Anne Arundel, Baltimore, Carroll, Hartford and Howard Counties.

**Projection

Source: U.S. Bureau of the Census
Maryland Department of State Planning

Exhibit III-2

Income Averages

Effective Buying Income (EBI)-Dec. 1987

Distribution	Percent Households		
	Anne Arundel County	Maryland	U.S.
\$ 0- 9,999	8.5	12.3	17.6
10,000-19,999	14.6	16.8	21.3
20,000-34,999	26.5	25.0	25.9
35,000-49,999	23.2	19.6	17.1
50,000 and over	27.2	26.3	18.1
Median Household	\$35,188	\$32,466	\$25,888
Average Household	\$41,989	\$40,536	\$35,255
Per Capita	\$14,270	\$14,693	\$13,040
Total EBI (Millions)	\$6,059.0	\$67,037.7	\$3,202,847.1

Effective Buying Income-is personal income less personal tax and nontax payments. It is commonly known as "disposable personal income."

Source: Maryland Department of Economics & Employment Development,
Reprinted from: Sales and Marketing Magazine
Copyright: Data Service, 1988.

Exhibit III-3
Annapolis City
Hotel Tax Receipts

<u>Fiscal Year</u>	<u>6% Hotel Tax</u>	<u>% Change</u>
1982	\$193,000	
1983	217,000	12.4
1984	248,000	14.3
1985	321,000	29.4
1986	358,930	11.8
1987	503,999	40.4
1988	563,619	11.8
1989	614,511	9.0

Source: City of Annapolis

Exhibit III-4

Major Employers

Annapolis Market

<u>Company</u>	<u>Industry</u>	<u>Employees</u>
Maryland State Government		3,000
U.S. Naval Academy	Institution	2,200
Westinghouse	Defense Contractor	800
IIT Research	Electronics	800
Aeronautical Radio, Inc. (AIRNC)	Defense Contractor	600
Nationwide	Insurance	450
Honeywell, Inc.	Electronics	220
Annapolis Bank & Trust	Banking	130
Pepsi Cola Bottling Co.	Soft Drinks	120
Coca Cola Bottling Co.	Soft Drinks	75
Northrop Corp.	Defense Contractor	65
UNC Resources	Defense Contractor	50
Hardee's Food Systems	Fast Food	50

ANNAPOLIS HILTON INN

Annual Occupancy

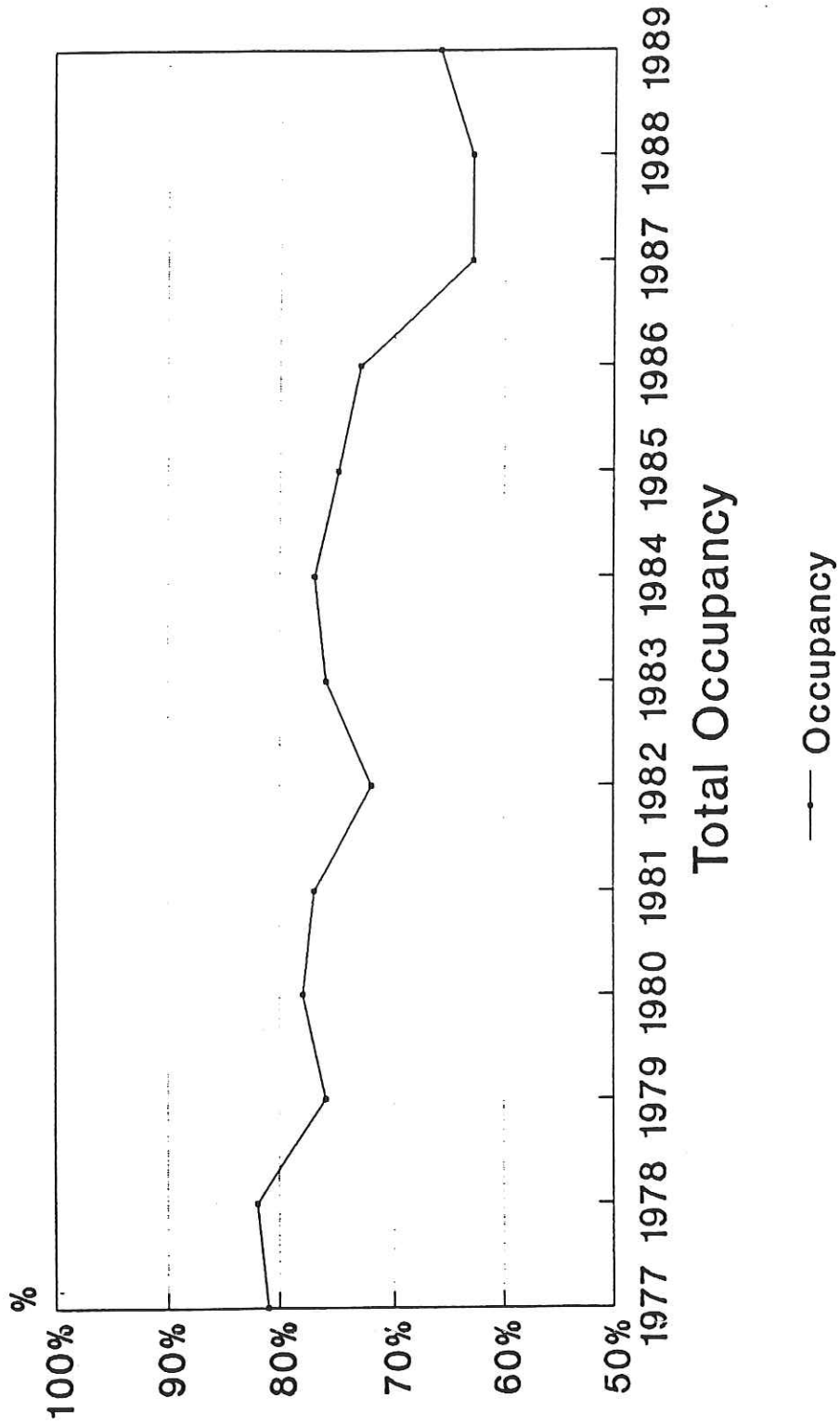
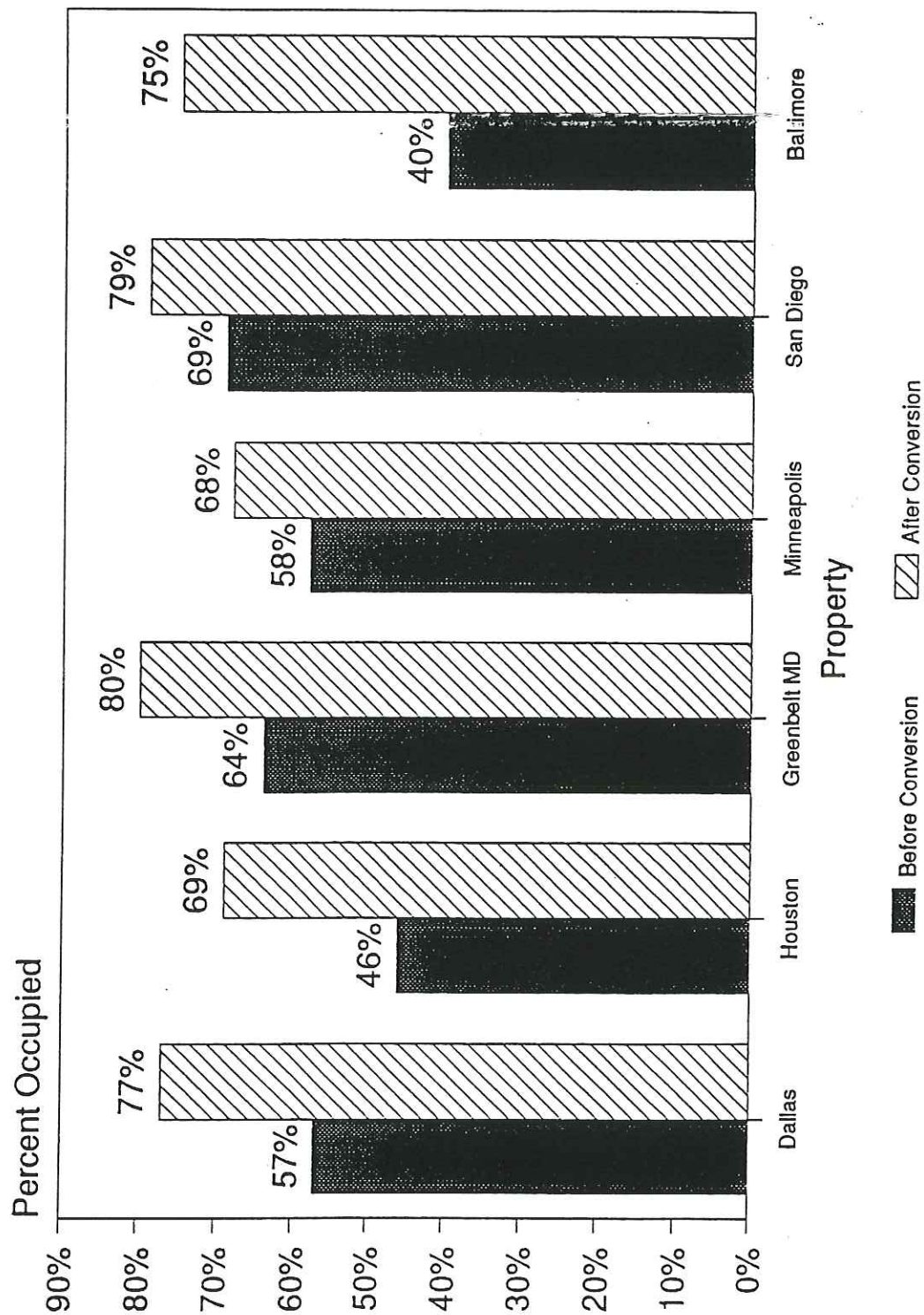


EXHIBIT III-5B

Selected Marriott Occupancy Rates Converted Hotels



Source: Marriott Corporation and
Prime Motor Inns

EXHIBIT III-6A

COMPETITIVE HOTEL INVENTORY

Annapolis, Maryland

	MARRIOTT	HISTORIC INNS	LOEW'S
Number of Rooms	130	128	202
Number of Suites	2	13	15
Total Room Inventory	132	141	217
Single Rack Rate	69-189	80-125	85-135
Double Rack Rate	89-209	100-145	99-145
Suite Rack Rate	270-370	135-230	175-250
Corporate Rate	99	60-100	80
Group Rate	110	108	95
Weekend Rate		Same as Rack Rate	
Government Rate	63	70	63
AVERAGE RATE			
1988	111.00	89.42	76.00
1989	106.95	94.74	77.00
Forecast 1990	104.00	99.50	
OCCUPANCY			
1988	67.0%	78.0%	56.7%
1989	65.9%	77.6%	65.0%
Forecast 1990	67.0%	77.6%	65.0%

Source: Coldwell Banker, and USF&G Realty Advisors

EXHIBIT III-6B

COMPETITIVE HOTEL INVENTORY

Parole, Maryland

	HOLIDAY INN	COURTYARD by Marriott	RAMADA INN
Total Number of Rooms	221	149	197
Single Rack Rate Double Rack Rate	72-82 75-85	64-74 75	79-99 119-139
AVERAGE RATE			
Forecast 1990	67.00	64.00	69.00
OCCUPANCY			
Forecast 1990	65%	63%	67%

Source: Hospitality Valuation Services

Exhibit IV-1
Biographical Sketches

Fredrick V. Malek

Fred Malek is an independent merchant banker, based in Washington, D.C. and currently serves as Senior Advisor to The Carlyle Group, a merchant bank also located in Washington D.C.

Mr. Malek recently completed, as a principal, the purchase of Coldwell Banker Commercial Real Estate from Sears Company, the leveraged buyout of Northwest Airlines and the acquisition of Marriott's airline catering division in partnership with the Carlyle Group. He was also involved in the leveraged buyout and subsequent resale of Avis Company. Mr. Malek serves on the Board of Directors of several New York Stock Exchange Companies, including ADP, Florida Power and Light, and others.

Mr. Malek was President of Marriott Hotels and Resorts from 1981 through June 1988. While under his direction, the Marriott Hotel Corporation generated over \$3 billion in annual sales, \$1 billion in annual real estate development and construction, and employed 70,000 people worldwide. In addition to directing the company's core business, he led the diversification into four new lodging businesses which expanded the company's total number of hotels to over 400 locations, making Marriott the largest operator of hotels in the United States. Prior to 1981, Mr. Malek served as corporate Executive Vice President and Chief Executive Officer of Marriott's Contract Food Services Division.

Serving as Deputy Director of the U.S. Office of Management and Budget from January 1973 to October 1974, Mr. Malek was also Special Assistant to the President of the United States, and served as Deputy Under Secretary of the Department of Health, Education, and Welfare.

Mr. Malek has been a management consultant with McKinsey and Company, and in 1967, founded and became Co-Chairman of the Triangle Corporation. He is a graduate of West Point and served in Vietnam. He received his M.B.A. with distinction from Harvard Business School in 1964.

During 1988, Mr. Malek served as Convention Director for President Bush, and has previously served as a member of the President's Domestic Council, the President's Commission on White House Fellows, and on the Executive Committee of the President's Private Sector Survey on Cost Control. He currently serves on the President's Council on Physical Fitness and Sports, and on the Board of the American Council for Capital Formation.

Leland C. Pillsbury

During 1989 and 1990 Mr. Pillsbury formed and built a branded hotel operating and management company headquartered in Annapolis, Maryland. The firm grew from one operating hotel to five in 12 months; with management responsibility for annualized hotel revenues in excess of \$30 million and 1,000 employees. This company was sold by Pillsbury to its senior executives as part of a divestiture plan allowing Mr. Pillsbury to concentrate on Marriott-branded hotel development.

From 1978 to 1988 Mr. Pillsbury held increasing positions of responsibility with Marriott Corporation. While general manager of a large hotel, Mr. Pillsbury obtained an MBA from Northwestern University and joined the corporate operation of the Marriott Corporation, where he was involved with strategic planning, new product development and lodging industry acquisitions.

Mr. Pillsbury is a graduate of the School of Hotel Administration at Cornell University, and a consultant and speaker to major corporations and associations.

Exhibit IV-2

Hotel Ownership

Hotel Lessee:	MP Associates Limited Partnership (MPA)
General Partners:	Pillsbury Enterprises, Inc. (Malek & Pillsbury) Bay Lodging, Inc. (Mangione & Bernstein)
Limited Partners:	Malek, Pillsbury, Mangione, Bernstein & Greco.
Purchase Option:	MPA holds an irrevocable option to purchase the Hotel and the lessor's interest in the ground lease for \$500,000, exercisable after the earliest of a) five years, b) the death of William Siskind or c) breach of CSLP Partnership Agreement by the limited partner.
Hotel Owner/ Ground Lessee:	Compromise Street Limited Partnership (CSLP)
General Partner:	CSI, Inc. (Malek & Pillsbury) Complete decision making authority.
Limited Partner:	Hospitality House of Annapolis, No decision making authority.
Lease Expiration:	Expires with ground lease (2039 including extensions).
Rent:	The amount required to pay Hotel debt service and ground rent. Please refer to Exhibit V-5, Ground Lease Abstract for a summary of the ground lease rent.

Exhibit V-1A
Annapolis Waterfront Hotel
Summary of Cash Flows and Yield Analysis
Most Likely Case

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ptions

Initial Loan Amount.....	\$20,000,000
Average Daily Rate.....	\$117.91
Average Occupancy.....	75.00%
Replacement Reserves (10 yr. avg.).....	\$305,056
Income Growth Rate.....	3.00%
Residual Cap Rate.....	10.75%
Number of Rooms After Renovation.....	150

Calculations (000's)

Year:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Revenues	8,795	9,235	9,697	10,182	10,691	11,225	11,787	12,376	12,995	13,645	14,327
-Departmental Expenses	(3,712)	(3,602)	(3,782)	(3,971)	(4,169)	(4,378)	(4,597)	(4,827)	(5,068)	(5,321)	(5,587)
=Departmental Income	5,084	5,633	5,915	6,211	6,521	6,847	7,190	7,549	7,927	8,323	8,739
-Operating Expenses	(3,131)	(3,289)	(3,142)	(3,300)	(3,467)	(3,642)	(3,826)	(4,019)	(4,221)	(4,434)	(4,657)
=Net Operating Income Before Reserves	1,953	2,344	2,773	2,910	3,054	3,206	3,364	3,531	3,706	3,889	4,082
-Replacement Reserves	(88)	(185)	(291)	(305)	(321)	(337)	(354)	(371)	(390)	(409)	(430)
=Cash Flow for Debt Service	1,865	2,160	2,483	2,605	2,734	2,869	3,011	3,160	3,316	3,480	3,653
-Base Debt Service (@ Coupon or Pay Rate)	(1,865)	(2,160)	(2,308)	(2,289)	(2,556)	(2,556)	(2,556)	(2,556)	(2,556)	(2,556)	
=Cash Flow Available for Participation	0	0	174	316	177	312	454	603	760	924	
-Amount Used to Repay Accruals	0	0	(174)	(316)	(29)	0	0	0	0	0	
=Amt. Avail. for Participation (-0- if negative) x 50%	0	0	0	0	149	312	454	603	760	924	
=Additional Cash Flow for USF&G	0	0	0	0	74	156	227	302	380	462	

USF&G Yield Analysis

Invested Capital	(20,000)	0	0	0	0	0	0	0	0	0	
Base Debt Service (@ Coupon or Pay Rate)		1,865	2,160	2,308	2,289	2,556	2,556	2,556	2,556	2,556	
Additional Cash Flow		0	0	0	0	74	156	227	302	380	
Amount to Repay Accruals		0	0	174	316	29	0	0	0	0	(0)
Repayment of Loan Balance											17,566
Cash Proceeds from Sale											8,418
Minimum Additional Interest											0
USF&G's TOTAL CASH FLOW	(20,000)	1,865	2,160	2,483	2,605	2,659	2,713	2,783	2,858	2,936	29,002
Estimated IRR	14.0%										
Annual Return on Capital	$\frac{3.0}{9.0}$	9.3%	10.6%	12.1%	12.8%	13.1%	13.8%	14.4%	15.1%	15.8%	16.7%
Loan to Value Ratio		0.83	0.85	0.76	0.72	0.67	0.63	0.59	0.55	0.51	0.48
L:V Net of Letter of Credit		0.71	0.72	0.65	0.61	0.57	0.53	0.50	0.46	0.43	0.40
Fixed Debt Service Coverage Ratio		1.22	1.28	1.35	1.27	1.19	1.25	1.32	1.38	1.45	1.52

Exhibit V-1B
Annapolis Waterfront Hotel
Summary of Cash Flows and Yield Analysis
Optimistic Case

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Options

Initial Loan Amount.....	\$20,000,000
Average Daily Rate.....	\$127.00 ✓
Average Occupancy.....	80.00% ✓
Replacement Reserves	
(10 yr. avg.).....	\$385,640
Income Growth Rate.....	7.00%
Residual Cap Rate.....	10.75%
Number of Rooms	
After Renovation.....	150

Calculations (000's)

Year:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Revenues	10,048	10,751	11,504	12,309	13,171	14,093	15,079	16,135	17,265	18,473	19,766
-Departmental Expenses	(4,240)	(4,193)	(4,487)	(4,801)	(5,137)	(5,496)	(5,881)	(6,293)	(6,733)	(7,204)	(7,709)
=Departmental Income	5,808	6,558	7,017	7,509	8,034	8,597	9,198	9,842	10,531	11,269	12,057
-Operating Expenses	(3,296)	(3,529)	(3,473)	(3,718)	(3,980)	(4,261)	(4,562)	(4,883)	(5,228)	(5,596)	(5,990)
=Net Operating Income Before Reserves	2,512	3,030	3,545	3,791	4,054	4,335	4,637	4,959	5,304	5,673	6,068
-Replacement Reserves	(100)	(215)	(345)	(369)	(395)	(423)	(452)	(484)	(518)	(554)	(593)
=Cash Flow for Debt Service	2,412	2,815	3,200	3,421	3,659	3,913	4,184	4,475	4,786	5,119	5,475
-Base Debt Service (@ Coupon or Pay Rate)	(2,250)	(2,250)	(2,250)	(2,250)	(2,553)	(2,514)	(2,553)	(2,553)	(2,553)	(2,553)	
=Cash Flow Available for Participation	162	565	950	1,171	1,106	1,399	1,632	1,922	2,233	2,566	
-Amount Used to Repay Accruals	(0)	(0)	(0)	(0)	0	0	0	0	0	0	
=Amt. Avail. for Participation (-0- if negative)	162	565	950	1,171	1,106	1,399	1,632	1,922	2,233	2,566	
x 50%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	
=Additional Cash Flow for USF&G	81	282	475	586	553	699	816	961	1,117	1,283	

USF&G Yield Analysis

Invested Capital	(20,000)	0	0	0	0	0	0	0	0	0	0
Base Debt Service (@ Coupon or Pay Rate)		2,250	2,250	2,250	2,250	2,553	2,514	2,553	2,553	2,553	
Additional Cash Flow		81	282	475	586	553	699	816	961	1,117	1,283
Amount to Repay Accruals		0	0	0	0	0	0	0	0	0	0
Repayment of Loan Balance										17,649	
Cash Proceeds from Sale										17,375	
Minimum Additional Interest										0	
USF&G's TOTAL CASH FLOW	(20,000)	2,331	2,532	2,725	2,836	3,106	3,213	3,368	3,514	3,669	38,860
Estimated IRR	17.7%										
Annual Return on Capital	7.10%	11.7%	12.7%	13.6%	14.2%	15.5%	16.3%	17.4%	18.5%	19.7%	21.1%
Loan to Value Ratio		0.83	0.83	0.57	0.53	0.50	0.46	0.42	0.39	0.35	0.32
L:V Net of Letter of Credit		0.71	0.71	0.48	0.45	0.42	0.39	0.36	0.32	0.30	0.27
Fixed Debt Service Coverage Ratio		1.57	1.68	1.77	1.68	1.59	1.72	1.82	1.94	2.08	2.22

Exhibit V-1C
Annapolis Waterfront Hotel
Summary of Cash Flows and Yield Analysis
Conservative Case

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Initial Loan Amount.....	\$20,000,000
Average Daily Rate.....	\$109.20 ✓
Average Occupancy.....	70.00% ✓
Replacement Reserves (10 yr. avg.).....	\$240,045
Income Growth Rate.....	3.00% ✓
Residual Cap Rate.....	10.75%
Number of Rooms After Renovation.....	150

Calculations (000's)

Year:	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total Revenues	7,654	7,884	8,120	8,364	8,615	8,873	9,139	9,414	9,696	9,987	10,286
-Departmental Expenses	(3,230)	(3,075)	(3,167)	(3,262)	(3,360)	(3,461)	(3,564)	(3,671)	(3,781)	(3,895)	(4,012)
=Departmental Income	4,424	4,809	4,953	5,102	5,255	5,413	5,575	5,742	5,915	6,092	6,275
-Operating Expenses	(2,977)	(3,067)	(2,839)	(2,926)	(3,014)	(3,106)	(3,200)	(3,297)	(3,397)	(3,500)	(3,605)
=Net Operating Income Before Reserves	1,447	1,742	2,114	2,176	2,241	2,307	2,375	2,445	2,518	2,592	2,669
-Replacement Reserves	(77)	(158)	(244)	(251)	(258)	(266)	(274)	(282)	(291)	(300)	(309)
=Cash Flow for Debt Service	1,371	1,584	1,870	1,925	1,982	2,041	2,101	2,163	2,227	2,293	2,361
-Base Debt Service (@ Coupon or Pay Rate)	(1,600)	(1,859)	(2,111)	(2,405)	(2,729)	(2,729)	(2,729)	(2,729)	(2,729)	(2,729)	(2,729)
=Cash Flow Available for Participation	(229)	(274)	(241)	(480)	(746)	(688)	(628)	(566)	(502)	(436)	
-Amount Used to Repay Accruals	0	0	0	0	0	0	0	0	0	0	
=Amount Available for Participation (or -0- if negative)	0	0	0	0	0	0	0	0	0	0	
x 50%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	
=Additional Cash Flow for USF&G	0	0	0	0	0	0	0	0	0	0	

USF&G Yield Analysis

Invested Capital	(20,000)	0	0	0	0	0	0	0	0	0	0
Base Debt Service (@ Coupon or Pay Rate)		1,600	1,859	2,111	2,405	2,729	2,729	2,729	2,729	2,729	2,729
Additional Cash Flow		0	0	0	0	0	0	0	0	0	0
Amount to Repay Accruals		0	0	0	0	0	0	0	0	0	1,379
Repayment of Loan Balance											18,802
Cash Proceeds from Sale											1,353
Minimum Additional Interest											2,551
USF&G's TOTAL CASH FLOW	(20,000)	1,600	1,859	2,111	2,405	2,729	2,729	2,729	2,729	2,729	26,814
Estimated IRR	12.7% ✓										
Annual Return on Capital	9.7	8.0%	9.0%	10.0%	11.3%	12.8%	13.0%	13.2%	13.4%	13.7%	14.1%
Loan to Value Ratio		0.83	0.86	1.04	1.03	1.00	0.95	0.91	0.87	0.82	0.78
L:V net of Letter of Credit		0.71	0.74	0.89	0.88	0.86	0.82	0.78	0.74	0.70	0.66
Fixed Debt Service Coverage Ratio		0.90	0.94	1.00	0.90	0.82	0.85	0.87	0.90	0.92	0.95

Exhibit V-2A
Property Cash Flow
Most Likely Case
(000's)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Revenues											
Rooms	4,842	5,084	5,338	5,605	5,885	6,179	6,488	6,813	7,154	7,511	7,887
Telephone	111	116	122	128	134	141	148	155	163	171	180
Food & Beverage	3,654	3,837	4,029	4,230	4,442	4,664	4,897	5,142	5,399	5,669	5,953
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SUBTOTAL	8,607	9,037	9,489	9,963	10,461	10,985	11,534	12,110	12,716	13,352	14,019
Parking & Recreation	174	183	192	202	212	222	234	245	257	270	284
Miscellaneous	14	15	16	17	18	18	19	20	21	22	24
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TOTAL GROSS INCOME	8,795	9,235	9,697	10,182	10,691	11,225	11,787	12,376	12,995	13,645	14,327
Departmental Expenses	3,712	3,602	3,782	3,971	4,169	4,378	4,597	4,827	5,068	5,321	5,587
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TOTAL GROSS PROFIT	5,084	5,633	5,915	6,211	6,521	6,847	7,190	7,549	7,927	8,323	8,739
Undistributed Oper. Exp.	2,082	2,186	1,936	2,032	2,134	2,241	2,353	2,470	2,594	2,724	2,860
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TOTAL HOUSE PROFIT	3,002	3,447	3,980	4,179	4,387	4,607	4,837	5,079	5,333	5,600	5,880
Other Operating Expenses and Replacement Reserves											
Franchise Fee	362	381	446	468	492	516	542	569	598	628	659
Ground Lease Payment	434	458	482	508	535	563	593	624	657	692	728
Insurance	81	85	89	94	98	103	108	114	119	125	132
Real Estate Tax	171	180	189	198	208	218	229	241	253	266	279
Replacement Reserve	88	185	291	305	321	337	354	371	390	409	430
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SUBTOTAL DEDUCTIONS	1,137	1,288	1,497	1,573	1,654	1,738	1,827	1,919	2,017	2,119	2,227
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CASH FLOW FOR DEBT SVC.	1,865	2,160	2,483	2,605	2,734	2,869	3,011	3,160	3,316	3,480	3,653
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Exhibit V-2B
Property Cash Flow
Optimistic Case
(000's)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Revenues											
Rooms	5,563	5,952	6,369	6,814	7,291	7,802	8,348	8,932	9,558	10,227	10,942
Telephone	111	118	127	135	145	155	166	177	190	203	217
Food & Beverage	4,186	4,479	4,793	5,128	5,487	5,872	6,283	6,722	7,193	7,696	8,235
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SUBTOTAL	9,859	10,550	11,288	12,078	12,924	13,828	14,796	15,832	16,940	18,126	19,395
Parking & Recreation	174	186	199	213	228	244	262	280	299	320	343
Miscellaneous	14	15	17	18	19	20	22	23	25	27	28
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TOTAL GROSS INCOME	10,048	10,751	11,504	12,309	13,171	14,093	15,079	16,135	17,265	18,473	19,766
Departmental Expenses	4,240	4,193	4,487	4,801	5,137	5,496	5,881	6,293	6,733	7,204	7,709
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TOTAL GROSS PROFIT	5,808	6,558	7,017	7,509	8,034	8,597	9,198	9,842	10,531	11,269	12,057
Undistributed Oper. Exp.	2,122	2,270	2,069	2,214	2,369	2,535	2,712	2,902	3,105	3,323	3,555
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TOTAL HOUSE PROFIT	3,686	4,288	4,948	5,295	5,665	6,062	6,486	6,940	7,426	7,946	8,502
Other Operating Expenses and Replacement Reserves											
Franchise Fee	414	443	529	566	606	648	694	742	794	850	909
Ground Lease Payment	503	540	580	623	669	718	770	827	887	951	1,020
Insurance	82	88	94	101	108	116	124	132	142	151	162
Real Estate Tax	174	187	200	214	229	245	262	280	300	321	343
Replacement Reserve	100	215	345	369	395	423	452	484	518	554	593
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SUBTOTAL DEDUCTIONS	1,274	1,473	1,749	1,873	2,007	2,149	2,302	2,465	2,640	2,827	3,027
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CASH FLOW FOR DEBT SVC.	2,412	2,815	3,200	3,421	3,659	3,913	4,184	4,475	4,786	5,119	5,475
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Exhibit V-2C
Property Cash Flow
Conservative Case
(000's)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Revenues											
Rooms	4,185	4,311	4,440	4,573	4,710	4,852	4,997	5,147	5,302	5,461	5,624
Telephone	111	114	117	121	124	128	132	136	140	144	149
Food & Beverage	3,170	3,265	3,363	3,464	3,568	3,675	3,785	3,898	4,015	4,136	4,260
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SUBTOTAL	7,465	7,689	7,920	8,158	8,402	8,654	8,914	9,181	9,457	9,741	10,033
Parking & Recreation	174	179	185	190	196	202	208	214	221	227	234
Miscellaneous	14	15	15	16	16	17	17	18	18	19	19
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
TOTAL GROSS INCOME	7,654	7,884	8,120	8,364	8,615	8,873	9,139	9,414	9,696	9,987	10,286
Departmental Expenses	3,230	3,075	3,167	3,262	3,360	3,461	3,564	3,671	3,781	3,895	4,012
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TOTAL GROSS PROFIT	4,424	4,809	4,953	5,102	5,255	5,413	5,575	5,742	5,915	6,092	6,275
Undistributed Oper. Exp.	2,042	2,104	1,807	1,861	1,917	1,974	2,034	2,095	2,158	2,222	2,289
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TOTAL HOUSE PROFIT	2,382	2,705	3,146	3,241	3,338	3,438	3,541	3,648	3,757	3,870	3,986
Other Operating Expenses and Replacement Reserves											
Franchise Fee	315	325	374	385	396	408	420	433	446	459	473
Ground Lease Payment	372	384	397	410	423	437	451	465	480	495	511
Insurance	79	82	84	87	89	92	95	98	100	103	107
Real Estate Tax	168	173	178	183	189	195	200	206	213	219	226
Replacement Reserve	77	158	244	251	258	266	274	282	291	300	309
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SUBTOTAL DEDUCTIONS	1,011	1,121	1,276	1,315	1,356	1,397	1,440	1,485	1,530	1,577	1,625
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CASH FLOW FOR DEBT SVC.	1,371	1,584	1,870	1,925	1,982	2,041	2,101	2,163	2,227	2,293	2,361
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Exhibit V-3A

Preliminary Valuation Analysis

I. Cost Approach:

1989 cost per room, first class hotel:	\$170,000*
5% Inflation factor	<u>8,000</u>
1990 estimated cost per room:	178,500
less: 20% land cost included in estimate:	<u>35,700*</u>
	142,800
Number of Rooms after Renovation	<u>150</u>
Indicated Value	<u>\$21,420,000</u>

The Cost Approach to determining value is limited in determining market value because it ignores the income producing aspects of the investment.

II. Discounted Cash Flow Approach:

Present Value of Net Cash Flow @ 13%:	\$14,119,000
Present Value of Sale Proceeds @ 13%:	<u>11,441,000</u>
Indicated Value	<u>\$25,560,000</u>

III. Direct Capitalization Approach:

Stabilized Net Operating Income (Year 2)	\$2,345,000
Capitalization Rate	<u>10.5%</u>
	<u>\$22,333,333</u>

III. Direct Sales Comparison Approach

\$175,000 per room x 150 rooms =	<u>\$26,250,000</u>
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IV. Preliminary Valuation Conclusion:**

\$24,000,000

Indicated Loan:Value:	83.3%
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* Source: Hospitality Valuation Services

** The Commitment will contain an appraisal contingency which requires valuation by a Lender approved MAI-designated appraiser indicating a market value of at least \$24,000,000.

The capitalization and discount rates utilized for examples, II and III, have been selected from comparable hotel sales and published sources (see Exhibit V-4B, Hotel Comparables).

Sales Comparables utilized to determine the market value by the Direct Sales Comparison Approach include those listed on Exhibit V-4B, Hotel Comparables. Emphasis was placed upon properties in the Northeast and newer properties due to the Hotel's location and recent renovation.

Exhibit V-38
Hotel Comparables

Hotel:	Marriott Courtyard	Marriott Suites	Marriott Suites	Marriott International Dr.	Stouffer Inner Harbor Hotel
Location:	New Carrollton, MD	Newport Beach, CA	San Diego, CA	Orlando, FL	Baltimore, MD
# of Rooms:	152	251 suites	264	1,076	600
Price Per Room:	55,802	145,816	155,303	59,944	200,000 Construction Cost
Overall Rate:	10.3%	9.5%	10.2%	9.2%	N/A
Average Daily Rate:	N/A	108	N/A	N/A	N/A
Occupancy:	N/A	76.0%(projected)	67.0%	N/A	N/A
Other Notes:				12.1% IRR	
Sale Date:	8/86	8/88	1/90	11/87	N/A

Note: In a 1989 survey of institutions investing in or financing hotels, Pannell Kerr Forster determined the following rates were used in evaluating the investment:

	Overall Cap Rate	Terminal Cap Rate	IRR
Existing Hotels	10.7%	10.9%	13.7%
Proposed Hotels	11.3%	11.2%	14.2%
As compared to the subject:	10.0%	10.8%	13.0%

The rates used to value the subject hotel take into consideration premiums for the Hotel's location, recent renovation and Marriott franchise and discount for the encumbrance of the ground lease.

Exhibit V-4
Annapolis Waterfront Hotel
Sensitivity Analysis

EXPECTED IRR %

Conservative Case
70% Average Occupancy, \$109.20 Average Daily Rate

	Inflation Rate:	3%	5%	7%
Reversionary Cap Rate:	11.75%	12.1	13.1	13.8
	10.75%	12.7	13.7	13.8
	9.75%	13.3	13.8	13.8

Most Likely Case
75% Average Occupancy, \$117.91 Average Daily Rate

	Inflation Rate:	3%	5%	7%
Reversionary Cap Rate:	11.75%	13.7	13.8	14.6
	10.75%	13.8	14.0	15.0
	9.75%	13.8	14.4	15.5

Optimistic Case
80% Average Occupancy, \$127.00 Average Daily Rate

	Inflation Rate:	3%	5%	7%
Reversionary Cap Rate:	11.75%	15.1	16.2	17.3
	10.75%	15.4	16.6	17.7
	9.75%	15.9	17.0	18.2

Exhibit V-5

Ground Lease Abstract

Parties: The Yacht Basin Company, Landlord, and Compromise Street Limited Partnership, Tenant.

Date: November 6, 1989 (Commencement date also)

Term: 20 year initial term; one 20 year renewal, one 10 year renewal.

Rent:

- a. Minimum Rent: \$15,000 per year; \$1,250 per month.
- b. Percentage Rent:
 - i. 5% of Gross Room Revenues (GRR) if Gross Room Revenue is in excess of \$400,000 but less than \$420,000
 - or, ii. 6% of GRR over \$400,000 if GRR is greater than \$420,000, but less than \$440,000
 - or, iii. 7% of GRR over \$400,000 if GRR is greater than \$440,000 but less than \$460,000
 - or, iv. 8% of GRR over \$400,000 if GRR exceeds \$460,000.
 - plus: v. 2% of Other Gross Revenues.

Gross Room Revenue is defined as:

All income received by Tenant from rental of rooms to transient guests, and to persons, firms or Corporations renting rooms on a periodic basis. Does not include sales tax, excise or similar tax.

Other Gross Revenue is defined as:

All gross income less Gross Room Revenue: including revenues from food and beverage sales; banquet rentals; office functions; vending machines; sale of newspapers, maps, books, cosmetics, drugs, shaving supplies; boat slip and dock rental; parking lot income; income from pool use. Excludes: sales, excise or similar tax, tobacco sales, telephone and telex sales; sales of furniture, fixtures & equipment that is not in the ordinary course of business.

Rental year: March 1 - February 28

Net Lease: All expenses are paid by tenant.

No Assignment or Sublease: Without consent of Landlord, which shall not be unreasonably withheld.

**Mortgagee
Protection:**

No cancellation of Lease without consent of mortgagee.

Notice of default must be provided to mortgagee, cure period equal to tenant's period (6 months.) + 45 days.

Penalty of prime + 1% of amount in arrears.

Third Party or Mortgagee may take deed in lieu, or possession of improvements,

Mortgagee has right to intervene in lawsuit between Landlord and Tenant however, Landlord consent required for sale or assignment or deed in lieu - consent shall not be unreasonably withheld.

In the event ownership of the hotel changes, the new owner must demonstrate to Landlord that the hotel will be managed by a sophisticated hotel manager.

Additional Provisions:

May assign to corporation with same control.

May sublease to MP Associates Limited Partnership.

Can not alter exterior substantially without written consent of Landlord which shall not be unreasonably withheld.

Arbitration required for disputes.

Audits of Gross Revenue are required.

Any financing is subordinate to Landlord.

Exhibit V-6

Franchise Agreement Abstract

Franchise Royalty Fee: 6% of Gross Room Sales
3% of Gross Food and Beverage Sales

(During first 2 years 6% of Gross Room Sales will be reduced to 5%)

Initial Fee: \$300/Room

Franchisee: Pillsbury Enterprise, Inc., which is wholly owned by Fred Mallek & Lee Pillsbury; any change requires Marriott approval.

Hotel Owner: MP Associates Limited Partnership,